Expanding Our Sites

2003 Annual Report

ARCTIC GLACIER INCOME FUND

hotels

itineraries

museums

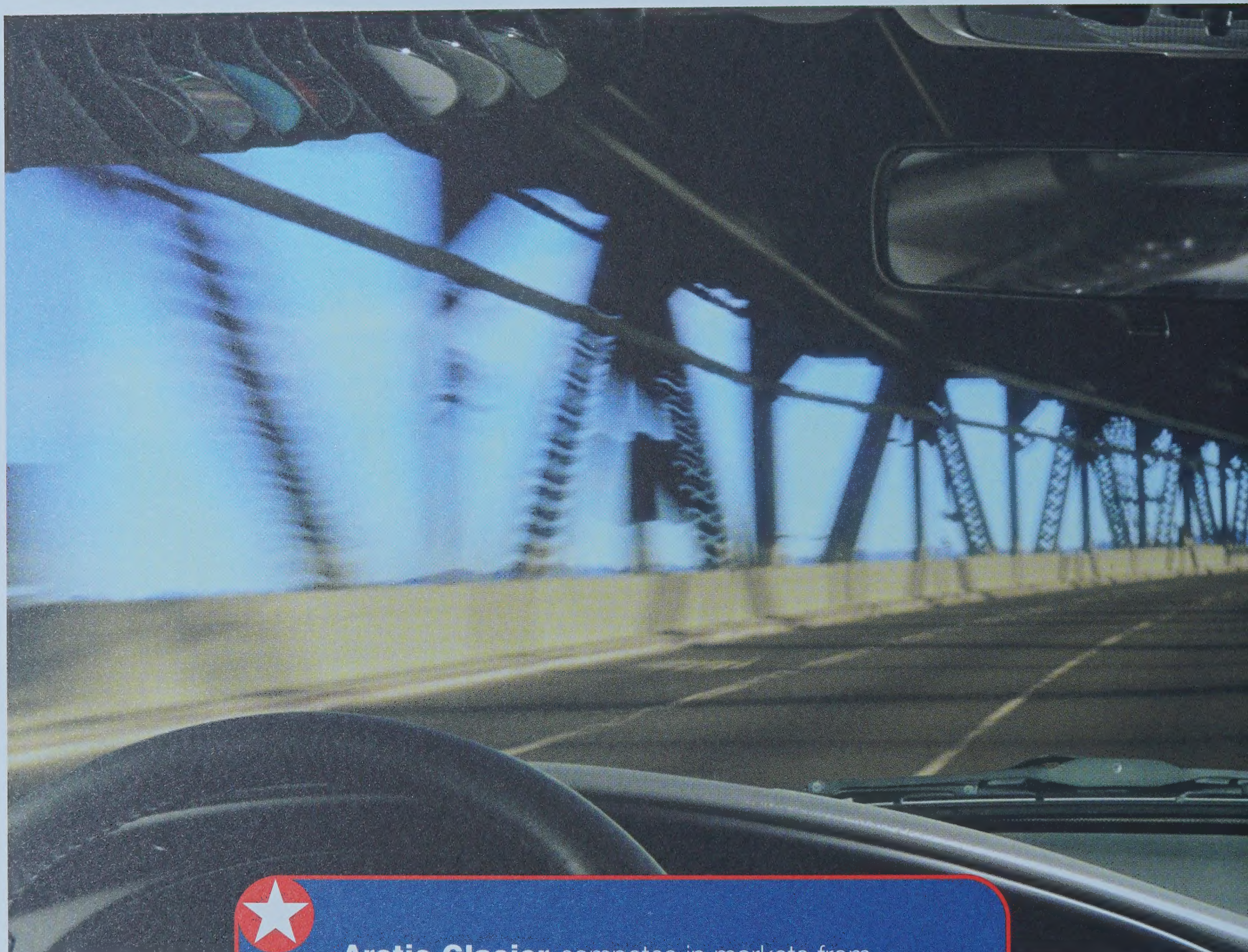
attractions

places to see

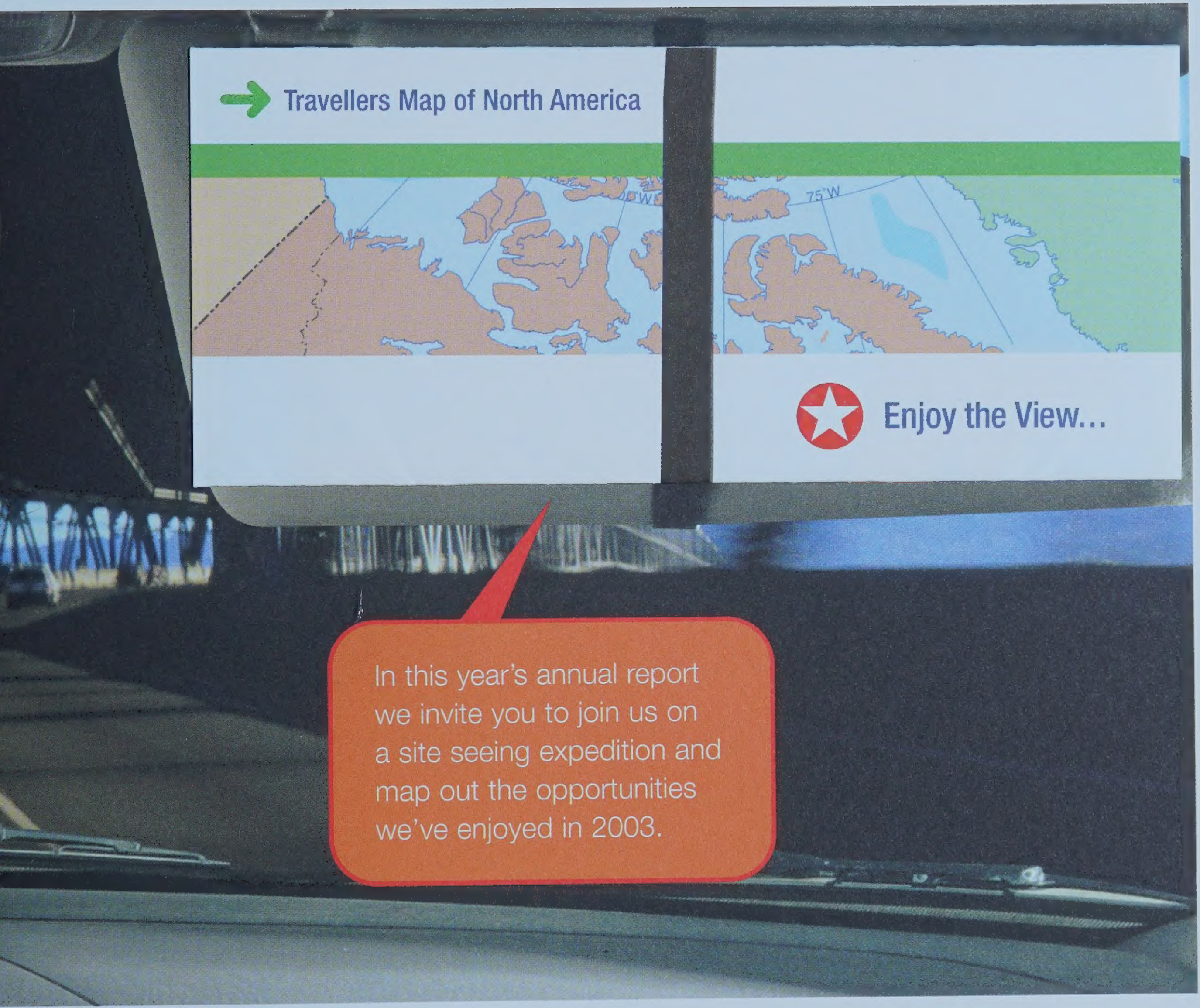
Site Seeing

Expanding our Sites

hotels | routes | day tours | museums | attractions | places to see



Arctic Glacier competes in markets from New York to Vancouver, and from Toronto to Lubbock. We're growing strongly, expanding into new territory and consolidating our position in current markets. So if you wheel around North America, chances are you'll drive through territory serviced by Arctic Glacier. It's the cool way to travel when you're hot.


Travellers Map of North America
75°W
Enjoy the View...
In this year's annual report we invite you to join us on a site seeing expedition and map out the opportunities we've enjoyed in 2003.

New York, NY USA

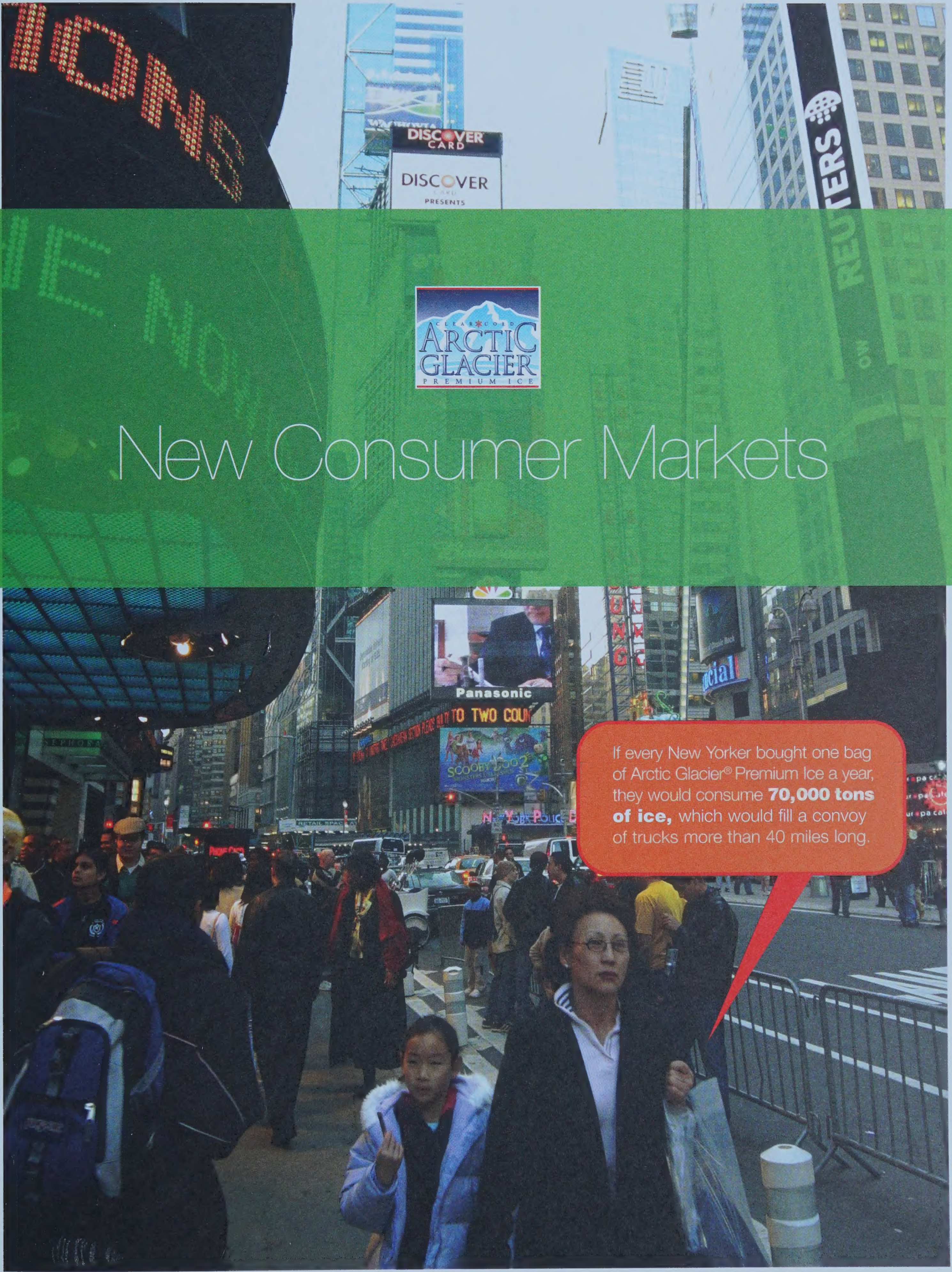
hotels | routes | day tours | museums | attractions | places to see

Central Park
Empire State Bldg.
Greenwich Village
Rockefeller Center
Statue of Liberty
Times Square
Yankee Stadium

In 2003, Arctic Glacier established a substantial presence in the New York City region with the acquisitions of Saxony Ice, Diamond Ice and Leisure Time Ice. Together, they are major providers of packaged ice in the greater New York City region.

Times Square – an entrepreneurial landscape that's larger than life. The billboards, the neon, the attractions, the people – all in overdrive, bringing to life the city that never sleeps. It's the crossroads of the world – and it's serviced by **Arctic Glacier.** Times Square is the jewel in the crown of the greater New York City region, a giant consumer market that Arctic Glacier is now tapped into.

New Consumer Markets



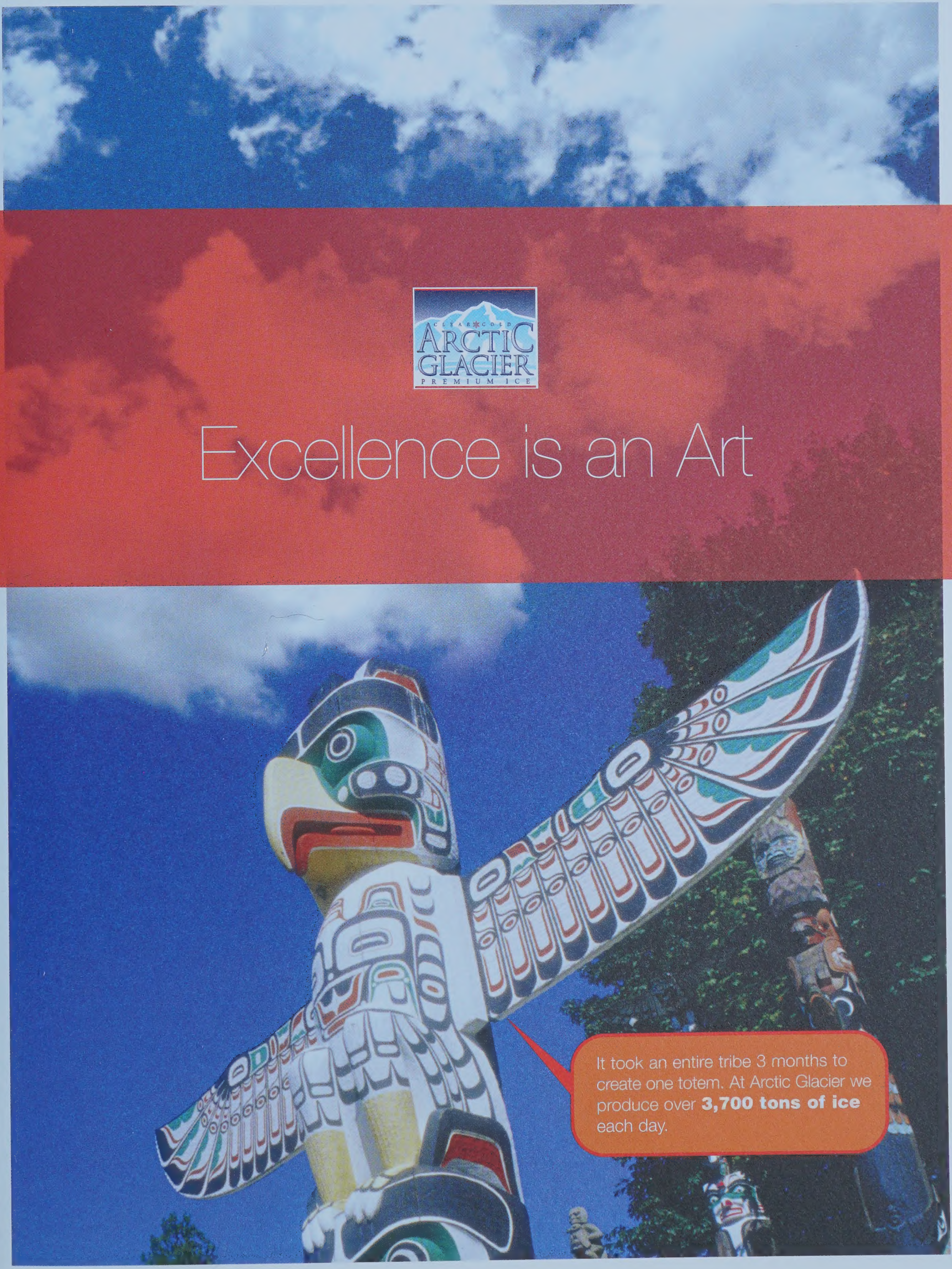
If every New Yorker bought one bag of Arctic Glacier® Premium Ice a year, they would consume **70,000 tons of ice,** which would fill a convoy of trucks more than 40 miles long.

Vancouver, BC Canada

hotels | routes | day tours | museums | attractions | places to see

In 1996, Arctic Glacier looked west from its Winnipeg headquarters and purchased a production facility in Vancouver. It was the young company's second acquisition, and it opened up a new market on the west coast. From those modest beginnings in British Columbia, Arctic Glacier has grown to be the premier packaged ice supplier to most of the province.

True craftsmanship is not a lost art… only the materials have changed. At **Arctic Glacier Inc.,** we create our product in Vancouver, BC and throughout North America with a commitment to unsurpassed quality. That's because we use sophisticated water treatment systems, ultraviolet sterilization, micro filtration and, in some cases, reverse osmosis to guarantee purity.



ARCTIC GLACIER
PREMIUM ICE
Excellence is an Art
It took an entire tribe 3 months to create one totem. At Arctic Glacier we produce over **3,700 tons of ice** each day.

Rapid City, SD USA

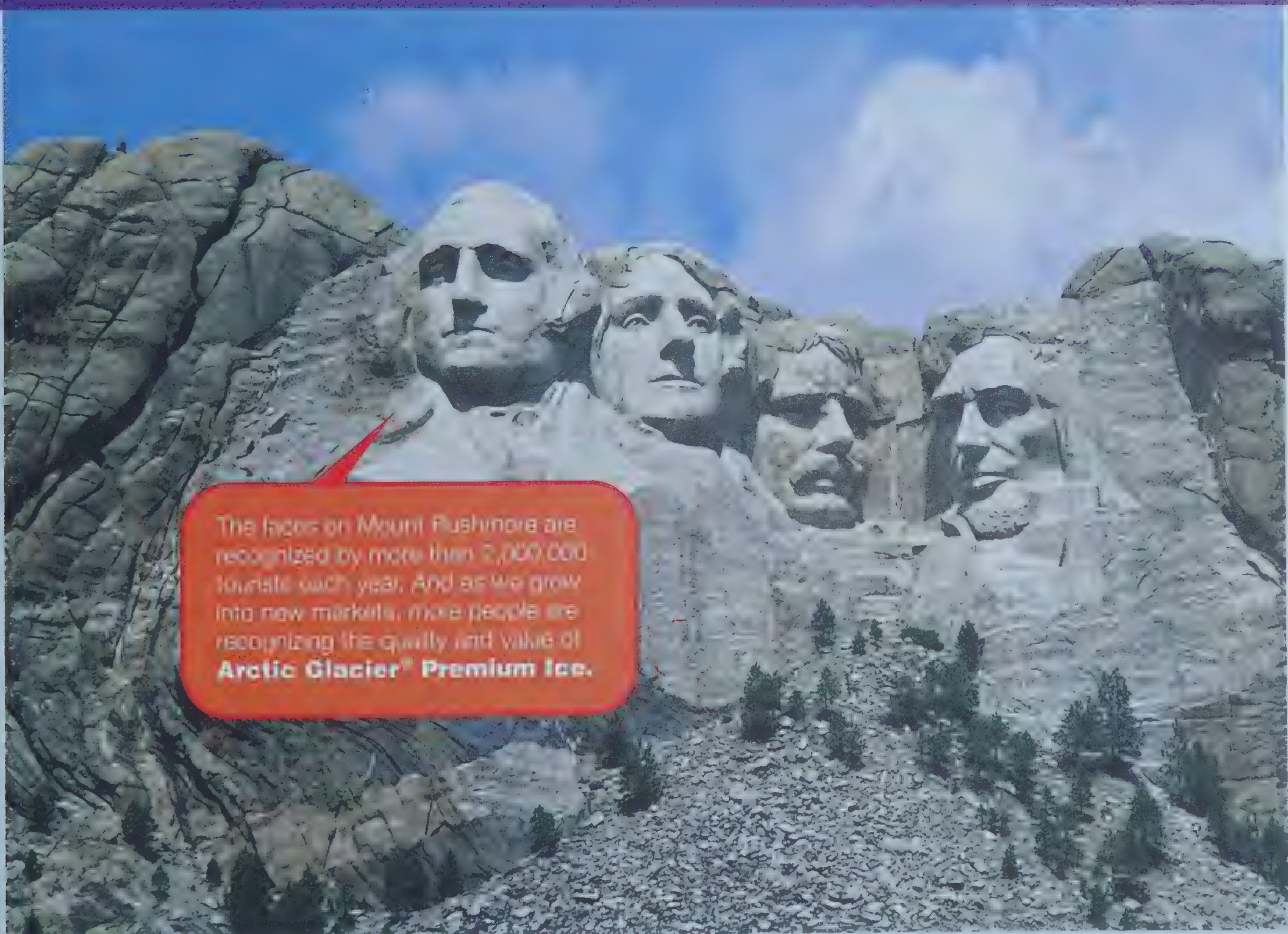
hotels | routes | day tours | museums | attractions | **places to see**

- Badlands
- Custer
- Deadwood
- **Mount Rushmore**
- Sioux Falls
- Watertown
- Windcave

With two production facilities and three distribution centres in South Dakota, Arctic Glacier has rapidly become the primary provider of ice for the state – and many other major markets in the Midwest.

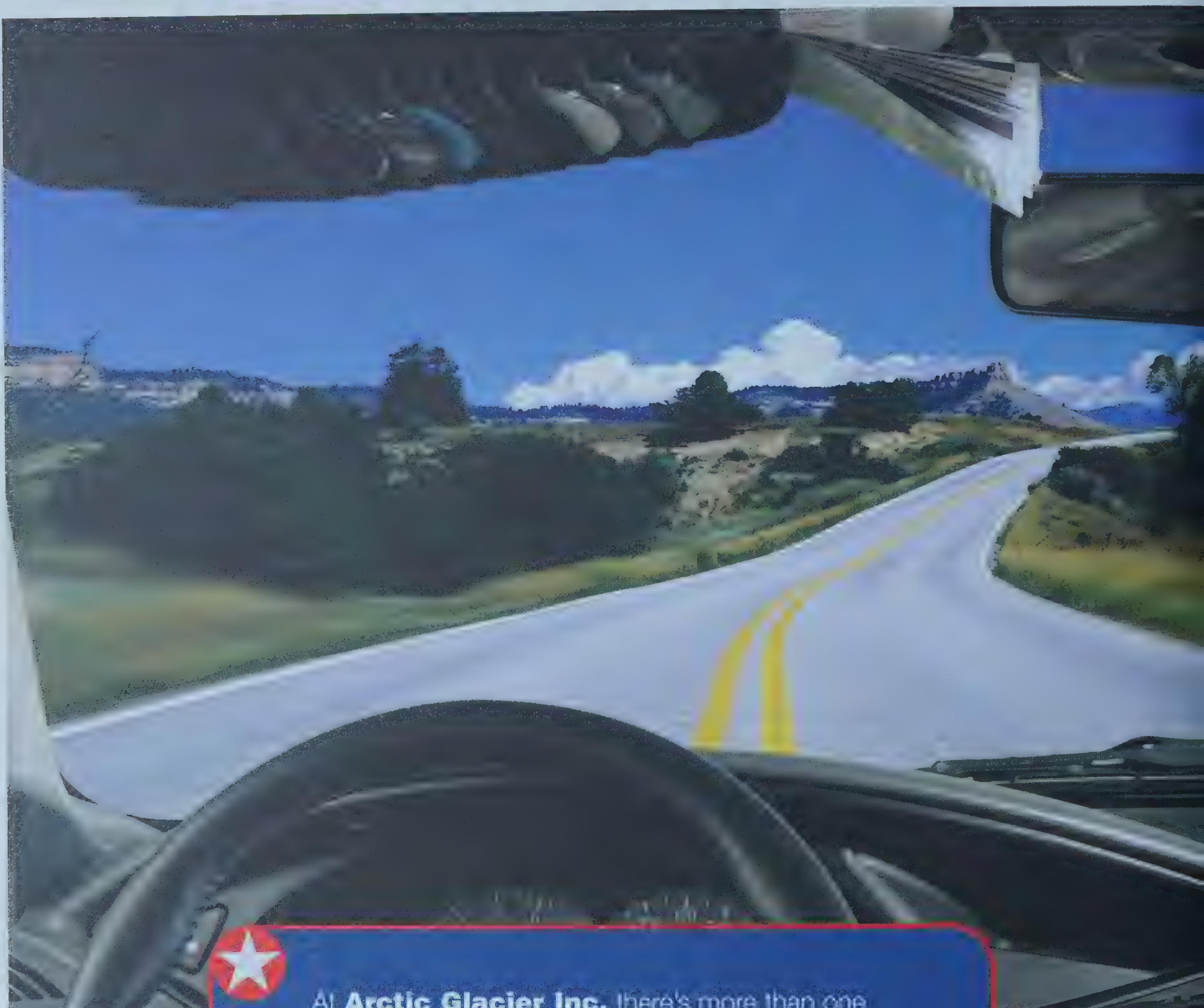
It's an awe-inspiring sight – four of the most recognizable U.S. Presidents, carved from the living granite. If you visit Mount Rushmore, be sure to pack a lunch because there's a lot to see. And when the weather gets hot on a sunny summer day, your meal will stay fresh with **Arctic Glacier® Premium Ice** in the cooler. We service the region where Mount Rushmore is located, furnishing high quality Arctic Glacier® Premium Ice to retail outlets throughout the region.

A Recognizable Brand



Route to Success

hotels | routes | day tours | museums | attractions | places to see



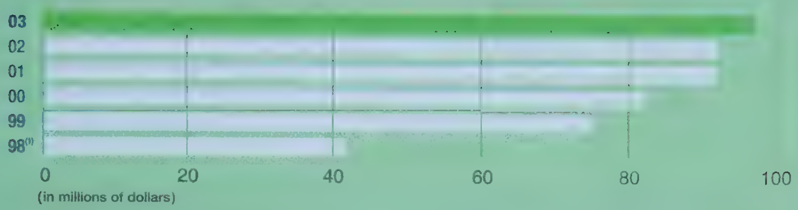
At **Arctic Glacier Inc.** there's more than one road to success. We follow a strategic approach to profitable growth that takes us along three routes: Accretive acquisitions, rationalization of operations to maximize margins and ongoing development of our branded product.

Highlights of 2003

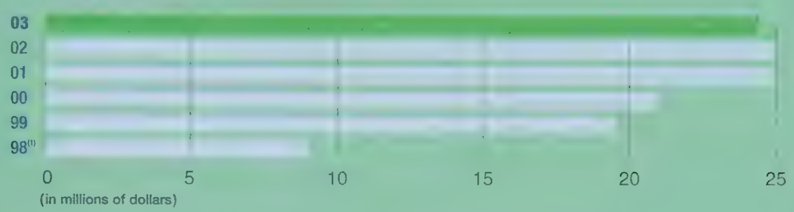
($000's, except as noted)	2003	2002	2001
Sales	97,170	91,710	91,388
EBITDA	24,462	25,004	25,053
EBITDA margin (% of sales)	25.2%	27.3%	27.4%
Net earnings (loss)	10,764	9,227	(4,815)
Funds from operations	20,862	17,249	11,504
Sustaining capital expenditures, net	3,468	3,317	3,541
Distributions to unitholders	19,744	12,761	–
Distributions to unitholders ($ per unit)	1.07	0.82	–
Total assets	214,657	182,938	187,097
Long-term debt	32,045	54,322	123,284
Units outstanding	23,275	15,660	6,043[1]

(1) Historical figures adjusted to reflect exchange of six common shares for one fund unit on March 22,2002

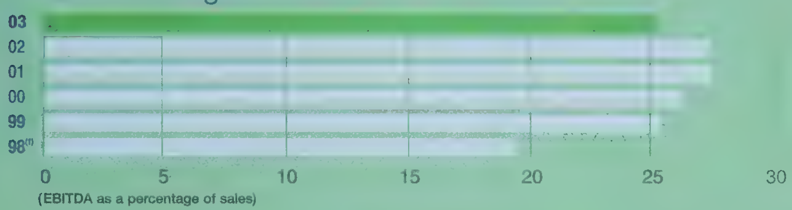
Sales



EBITDA

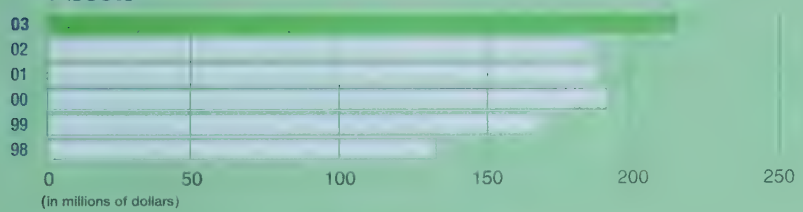


EBITDA Margin

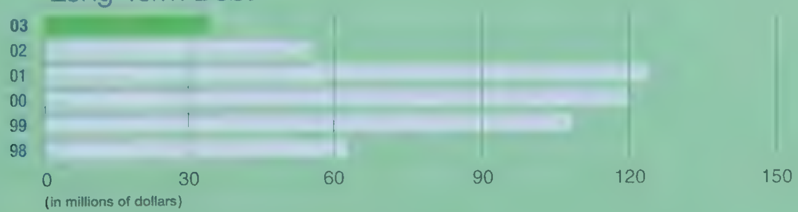


Funds from Operations

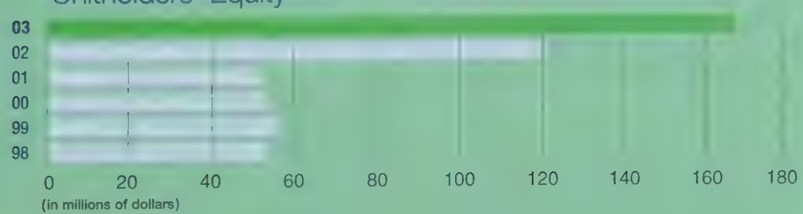
Assets



Long-Term Debt



Unitholders' Equity



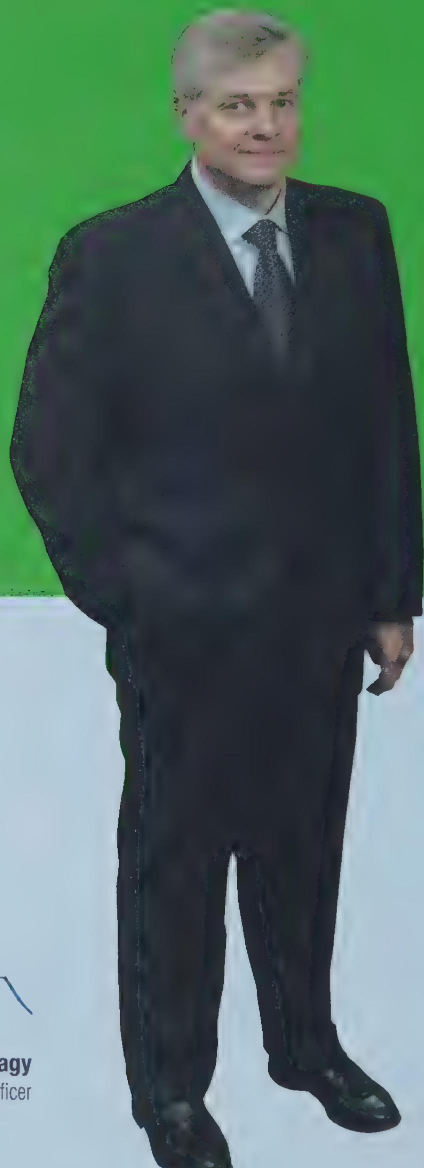
(1) unaudited estimate of 12 months ended December 31, 1998 since the year end of The Arctic Group Inc. was changed from April 30 to December 31

Message to Unitholders

During 2003, Arctic Glacier Income Fund was guided by the two objectives set out when the Fund went public the previous year:

- to generate stable cash distributions;
- to grow the fund.

We achieved both objectives.



Robert J. Nagy
President and Chief Executive Officer

The Fund entered 2003 with an established base of operations that assured sufficient cash flow to meet monthly distribution requirements. With distributions secured, management initiated a program of aggressive, prudent growth. By the end of 2003, Arctic Glacier had made four major acquisitions, greatly expanding our revenue base and dramatically penetrating the populous north eastern U.S. market. In addition, during the year Arctic Glacier put in place three new franchising agreements that substantially broadened our brand presence in multiple markets. The Fund also completed two equity financings that facilitated acquisitions, reduced debt and set the stage for further growth in 2004.

Distributions

The Fund commenced distributions following the initial public offering in March 2002 at a monthly rate of 8.75 cents per unit, or $1.05 per unit on an annualized basis. In January 2003, the Fund's cash flow had increased to a level sufficient to increase distributions without compromising its financial position. Accordingly, the rate of distribution was raised to 8.92 cents per unit, or $1.07 per unit, annualized. Distributions continue at this level.

In addition, for the second year the tax-advantaged portion of distributions was more favorable than anticipated. The original projection for the 2003 allocation of return of capital was estimated at 40%. Of the total distribution in 2003, the return of capital allocation was 46.5% and other taxable income was 53.5%.

Growth

Acquisitions are the most rapid and effective vehicle to achieve growth. The Fund's acquisition strategy is to first acquire the leading packaged-ice provider in a chosen market. After completing this "platform" acquisition, we then acquire additional smaller "tuck-in" companies in the same market and integrate them into the larger operation.

Late in the first quarter, the Fund completed the acquisition of a small tuck-in operation in our Nebraska market.

Toward the end of June, Arctic Glacier launched a major strategic initiative in the most densely populated market in the U.S. – the northeastern states. We began in the metropolitan Philadelphia market with the acquisition of ice-related assets of Rosenberger Ice. One month later, the Fund entered the New York City market with our largest acquisition to date – Springdale Ice Company and its affiliated company Diamond Ice Cube Company Inc. These two companies, operating as Saxony Ice and Diamond Ice, rank among the largest and most respected ice producers in the northeastern U.S. In October, Arctic Glacier acquired Brandywine Ice Company of Twin Oaks, Pennsylvania, further enlarging and consolidating the Fund's base of operations in the greater Philadelphia market.

Revenues for the operations acquired during the year amount to $30 million on an annualized basis. As a result of the timing of the acquisitions, the bulk of this annualized revenue was not reflected in the Fund's reported sales for 2003.

Subsequent to year end, Arctic Glacier acquired the assets of the ice products division of A.T. Reynolds & Sons, Inc. of Kiamesha Lake, New York. With the addition of business from A.T. Reynolds, operating as Leisure Time Ice, Arctic Glacier will have an annual revenue base of approximately $35 million in the strategic market areas of New York City and Philadelphia. The addition of these market areas is expected to be significantly accretive to the Fund on an annualized basis.

During the year Arctic Glacier also expanded its franchising program. The Fund signed franchising agreements with Creed Ice of Rutland, Vermont, Getchell Bros. Inc. of Brewer, Maine and Giocondo Brothers Ice, of Kansas City, Missouri.

Arctic Glacier's greatly heightened pace of market research, franchising, acquisitions, rationalization and integration pointed to a need for dedicated management of this key part of our corporate growth. In February 2003 the Fund created the new position of Director, Corporate Development. Gary Cooley, a long time industry participant, was hired for the new position, which manages market research and franchising. In July, the Fund created the position of Vice President, Acquisitions and Integration and named Keith Burrows to fill it. Mr. Burrows, a director of the Company since 1996 and a Trustee of the Fund since 2002, resigned his positions as director and trustee to accept the position. Both of these appointees are very knowledgeable about Arctic Glacier and the packaged ice industry, and we welcome them to our management team.

Financing Growth

To finance acquisitions and other growth measures undertaken in 2003, the Fund completed two unit offerings. In June, the Fund sold 2.65 million units at a price of $9.50 per unit, for gross proceeds of $25.2 million. Most of these proceeds were deployed late in July for the acquisition of Springdale Ice of New York City. In October the Fund completed a second offering of 4.95 million units at a price of $10.10 per unit, for gross proceeds of $50 million. Both offerings were achieved on a bought deal basis through a syndicate of underwriters, and at the end of 2003 the Fund had $30 million of equity proceeds in treasury. Arctic Glacier has additional access to debt facilities of approximately $20 million, providing the Fund with $50 million available for acquisitions at year end. The Fund expects to invest the majority of the remaining equity proceeds during the first half of 2004.

Message to Unitholders

Results of Operations

Sales for the year totaled a record $97.2 million, up 6% over the previous record of $91.7 million in 2002. Most of the increase was due to acquisitions made in the key northeastern U.S. markets. Our eastern Canadian markets were negatively impacted by Severe Acute Respiratory Syndrome (SARS), which had a dampening effect on tourism and recreation. Our southern Ontario and New York City markets experienced increased sales as a result of the August 14th power outage. However, these gains were offset by additional costs of moving ice into the markets affected by the blackout. Sales were negatively impacted by a stronger Canadian dollar in 2003, which decreased the Canadian dollar value of the sales generated in U.S. markets by $6.2 million compared to 2002.

Distributable cash for the year amounted to $17.8 million or $0.98 per unit, compared to $17.6 million or $1.12 in 2002. Distributable cash was impacted by three main factors: the timing of acquisitions during the year, an increased number of units resulting from the two equity offerings completed in 2003, and additions to corporate infrastructure to prepare for this growth.

The timing of the acquisitions had a material effect on distributable cash because Arctic Glacier generates the bulk of its distributable cash from May to September. Our four strategic acquisitions in the key northeastern U.S. market took place from June to October.

For this reason, these acquisitions only marginally increased distributable cash for 2003. However, as a result of raising equity to fund these acquisitions, distributable cash is spread over an increased number of units relative to 2002. That means on a per unit basis, distributable cash actually declined from one year to the next. The full benefit to distributable cash, both overall and per unit, from these acquisitions will be realized in 2004.

The third main determinant of distributable cash was corporate expenses. Early in 2003, Arctic Glacier began making administrative preparations to handle the acquisitions planned for the year. These changes had the effect of reducing distributable cash for 2003, but over the longer term they will allow Arctic Glacier to centralize administrative functions and reduce costs at each of our newly acquired operations.

Net income for the year increased to $10.8 million, compared to $9.2 million for 2002. Net income per unit in 2003 amounted to $0.59 (basic) compared to $0.67 for 2002, again reflecting the higher number of units due to the two equity financings completed during the year.

The Fund finished 2003 with a strong balance sheet. Long term debt at the end of 2003 was $32.0 million, down from $54.3 million in 2002. Working capital amounted to $12.1 million, of which $11.0 million was cash.

Corporate Governance

During 2003 the Board of Trustees moved to separate the roles of Chairman and Chief Executive Officer. In June, the Board appointed James E. Clark to the position of Chairman. Mr. Clark was a founder of Arctic Glacier and was formerly Vice Chairman and Lead Outside Trustee.

Having relinquished the role of Chairman to Mr. Clark, I will continue in the role of President and Chief Executive Officer. Separating the roles of Chairman and Chief Executive Officer will not only improve corporate governance but will allow me to focus my efforts on the continued growth and forward direction of the Fund.

The Outlook

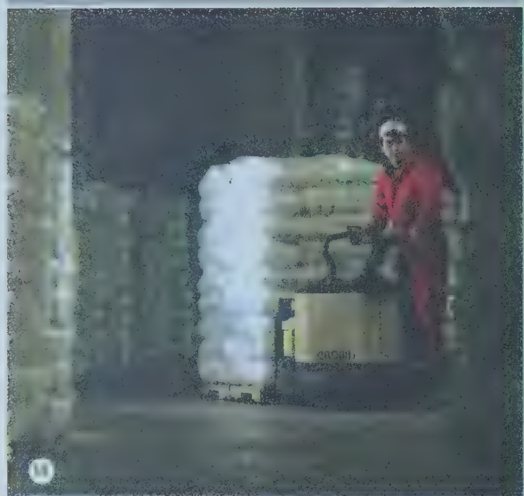
Arctic Glacier expects to continue growth through acquisition during 2004. The Fund exited 2003 with approximately $50 million of capital available for investment, and we are well positioned to take advantage of new opportunities. We are extremely pleased with the accretive nature of our acquisitions on an annualized basis, and this remains a key criterion for investment. Geographically, we will continue to focus on markets where a significant regional presence can be achieved.

During 2004 our management team will continue to rationalize the production, distribution and administrative functions of the operations acquired during 2003. Over the past six years, Arctic Glacier has demonstrated its capability of creating value by rationalizing acquired operations.

In closing, I would like to extend my thanks to Arctic Glacier investors, whose faith in the Fund has been rewarded with an appreciating investment. I also extend thanks to the Board of Trustees, an invaluable source of advice and counsel, and to Arctic Glacier employees, who work tirelessly to make it happen.

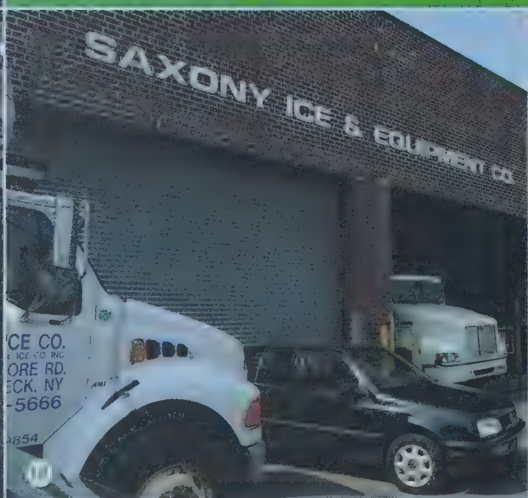
My thanks to all.

Operations



Operations

Arctic Glacier can produce up to 3,000 tons of packaged ice daily at 22 production plants. It is delivered from these plants and 34 distribution facilities to 40,000 retail, commercial and industrial customers in six provinces and 13 states. These operations are the result of 51 acquisitions of packaged ice companies since Arctic Glacier was founded in 1996. The plants that have been owned for some time bear the Arctic Glacier logo (photos 1–5), while acquisitions made in 2003 and 2004 (photos 6–14) are in the process of being converted to Arctic Glacier signage. Arctic Glacier also licenses its trade names and proprietary technology to independently owned ice companies in Canada and the U.S. under franchise and license agreements. Throughout these operations, production standards are constantly checked to ensure that Arctic Glacier's industry-leading quality is uniformly upheld in all markets.



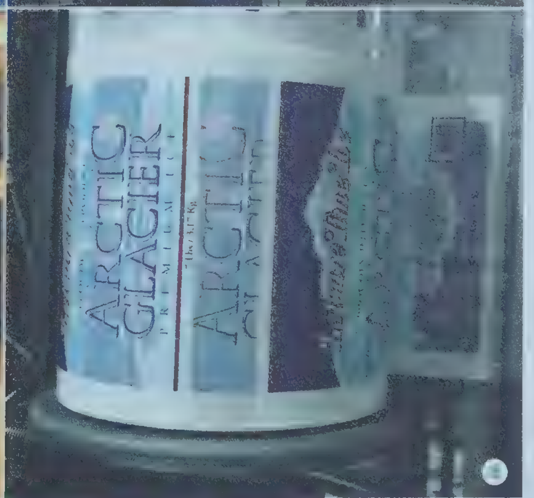
1 2
Arctic Glacier Inc.
West St. Paul, MN, USA

9 10 11
Brandywine Ice Company
Twin Oaks, PA, USA

6 7 8
Leisure Time Ice
Kiamesha Lake, NY, USA

3 4 5
Arctic Glacier Inc.
Mississauga, ON, CAN

12 13 14
Springdale Ice Company (Saxony Ice)
Mamaroneck, NY, USA



Management's Discussion & Analysis

of Operating Results and Financial Position for the year ended December 31, 2003

The Management's Discussion and Analysis ("MD&A") analyzes significant changes in the consolidated balance sheets, consolidated statements of operations, cumulative earnings (deficit) and cash flows of Arctic Glacier Income Fund. It has been prepared taking into account material transactions and events up to and including March 31, 2004, and should be read in conjunction with the annual consolidated financial statements and accompanying notes for the years ended December 31, 2003 and 2002 on page 35 to 49 of this report.

Summary of Financial Results

(Million, except per unit data)	2003	2002	2001
Sales	**$ 97.2**	$ 91.7	$ 91.4
Earnings (loss)	**10.8**	9.2	(4.8)
Earnings (loss) per unit (basic)	**0.59**	0.67	(0.84)
Earnings (loss) per unit (diluted)	**0.59**	0.66	(0.84)
Total assets	**214.7**	182.9	187.1
Long-term debt	**32.0**	54.3	123.3

Overview

Arctic Glacier Income Fund (the "Fund"), through its wholly-owned operating company, Arctic Glacier Inc. ("Arctic Glacier" or the "Company"), is a leading manufacturer and distributor of premium quality packaged ice products. Arctic Glacier is the largest producer of packaged ice in Canada and is among the largest producers of packaged ice in the United States, servicing more than 40,000 retail, commercial and industrial customer locations throughout six provinces in Canada and thirteen states in the central and northeastern United States from 22 production and 34 distribution facilities.

Arctic Glacier's primary product is packaged ice, marketed under the brand name Arctic Glacier® Premium Ice. Packaged ice for human consumption is sold in various package sizes ranging from 2 kilograms to 20 kilograms in Canadian markets and 5 to 40 pounds in United States markets. Packaged ice products are sold to retail customers, such as supermarket grocery stores and convenience stores, and to a variety of commercial users including bakeries and meat processors. Arctic Glacier also sells ice in bulk containers primarily to poultry processors, the commercial fishing industry, chemical plants and concrete plants.

Arctic Glacier also markets other ancillary products such as bottled water, dry ice, packaged wood, rock salt and ice-making and dispensing equipment in certain regions. Sales of these ancillary products currently represent approximately 10% of total annual sales.

Strategy

The Fund's key objectives are to generate stable cash distributions to unitholders and to grow distributable cash and cash distributions. The Fund's strategy to accomplish this is based on three core elements:

- ***Growth through acquisition*** – acquisitions within the highly fragmented ice industry constitute the most rapid and effective vehicle for significant growth. Arctic Glacier's acquisition strategy in any given market has two key phases – firstly to acquire the leading manufacturer and distributor in a market area as a platform, and secondly to purchase smaller competitors in that market and integrate them into the platform.
- ***Margin improvement*** – improving margins results in increased distributable cash and is accomplished through rationalizing production, distribution and administration infrastructure of acquired operations and through investments in improved product quality, which provide pricing opportunities as well as the prospect of increasing both market size and market share.
- ***Franchising/brand development*** – a critical cornerstone to further developing brand awareness and market penetration of Arctic Glacier® Premium Ice is expansion of the Company's franchising program, which permits expansion with limited capital investment and broadens the geographic presence of Arctic Glacier's branded product. Arctic Glacier acquires a right of first refusal on the purchase of the business when the existing owners wish to sell.

Highlights of 2003

The Fund has made significant progress in 2003 toward achieving its key strategies:

- Acquired the assets of the ice products division of Ice Castles, Inc. of Gering, Nebraska in March 2003 for aggregate consideration of $1.2 million including acquisition and restructuring costs of $0.1 million. Ice Castles, with annual sales of approximately $1 million, is a producer and distributor of packaged ice products servicing central and western Nebraska from production and distribution centers in Grand Island, North Platte and Gering, Nebraska. This acquisition provides a market area that is an excellent fit geographically with Arctic Glacier's existing operations in Nebraska and South Dakota; broadening the Company's distribution base and increasing market penetration.
- Acquired the assets of the ice products division of Rosenberger Companies, Ltd. of Blooming Glen, Pennsylvania in June 2003 for aggregate consideration of $5.7 million including acquisition

and restructuring costs of $0.8 million. Rosenberger Ice, with annual sales of more than $5 million, is a large producer and distributor of packaged ice products servicing a market area of more than 10 million people in eastern Pennsylvania, western New Jersey, northern Delaware and northeastern Maryland. Rosenberger Ice has a central production facility near Philadelphia in Hatfield, Pennsylvania and satellite production facilities in Stroudsburg, Pennsylvania and Wilmington, Delaware. This acquisition was a key step in Arctic Glacier's strategy of building a strong market presence in the northeastern U.S. market.

- Acquired the shares of Springdale Ice Company of Mamaroneck, New York, which operates under the name Saxony Ice, and its affiliated company Diamond Ice Cube Company Inc. of Bronx, New York in July 2003 for aggregate consideration of $28.4 million including acquisition and restructuring costs of $1.0 million. Saxony and Diamond, with annual sales of approximately $16 million, are among the largest and most respected companies in the packaged ice and related products business in the northeastern U.S. Saxony operates a manufacturing facility in Mamaroneck, New York and Diamond operates a distribution center in the Bronx. The companies manufacture and distribute ice and operate an equipment sales and leasing business in and around New York City.
- Acquired the shares of Brandywine Ice Company of Twin Oaks, Pennsylvania in October 2003 for aggregate consideration of $15.8 million including acquisition and restructuring costs of $0.8 million. Brandywine Ice, with annual sales of more than $7 million is the largest ice company in the Philadelphia market servicing eastern Pennsylvania, southern New Jersey, northern Delaware and northeastern Maryland. Brandywine Ice operates a modern, highly automated manufacturing facility in Philadelphia which has significant available excess capacity.
- Acquired subsequent to the end of the year (March 2004), the assets of the ice products division of A. T. Reynolds & Sons, Inc. of Kiamesha Lake, New York for aggregate consideration of approximately $8.9 million. With annual sales of more than $5 million, the division, which operates under the name Leisure Time Ice, is the market leader in its area servicing central New York State, parts of New York City, northern and central New Jersey and northeastern Pennsylvania. It operates a manufacturing facility in Kiamesha Lake and distribution centers in Newburgh, New York and Raritan, New Jersey.
- Completed three franchising agreements in 2003. In February 2003, a franchising agreement was signed with Creed Ice Co., Inc. of Rutland, Vermont, a large independent packaged ice manufacturer and distributor in the northeast U.S. servicing markets in Vermont, New Hampshire, Massachusetts and eastern New York. In April 2003 a franchising agreement was signed with Getchell Bros. Inc. of Brewer, Maine. Getchell manufactures ice in two plants in Brewer and Sanford, Maine servicing markets throughout Maine and other parts of New England. In May 2003 a franchising agreement was signed with Giocondo Brothers Ice Services Inc. of Kansas City, Missouri, one of the leading packaged ice companies in the Kansas City market area. Giocondo manufactures ice products in a new facility in Kansas City, distributing throughout the metropolitan and surrounding area. Under these agreements, all of these companies will now produce and market their branded packaged ice products as Arctic Glacier® Premium Ice.
- Acquired the manufacturing facility in West St. Paul, Minnesota that had previously been leased.
- Rationalized certain of Arctic Glacier's operations pursuant to acquisitions made both in the current year and in prior years. In 2003, Arctic Glacier sold the property and production equipment located in Bismarck, North Dakota and moved to a smaller distribution center. The former facility had previously been operated as a small, inefficient manufacturing plant. Subsequent to the Ice Castles acquisition, Arctic Glacier exited the redundant production facility in Grand Island, Nebraska where the Company already operates a distribution center. Early in 2004, Arctic Glacier disposed of the related redundant production equipment. Subsequent to the Rosenberger Ice acquisition, the Company converted the manufacturing plants in Stroudsburg, Pennsylvania and Wilmington, Delaware to distribution centers. Arctic Glacier is in the process of redeploying some of the production equipment and disposing of the remainder. The acquisition of Brandywine provided the Company with surplus production capacity in the region, and in early 2004 enabled the Company to exit the Wilmington facility altogether.
- Rationalized delivery routing in the western Nebraska region and introduced improved product quality into this market, which will generate higher returns. The acquisition of Brandywine Ice in October is providing Arctic Glacier with the opportunity to rationalize the distribution network in the Philadelphia market and surrounding area, which will be completed in advance of the 2004 summer sales season.

Non-GAAP Financial Measures

EBITDA, distributable cash and pro forma distributable cash are not recognized measures under Canadian generally accepted accounting principles (GAAP). EBITDA is defined as earnings before interest, taxes, amortization and non-recurring expenses including acquisition integration charges that are one-time costs unique to each individual acquisition. EBITDA is a performance metric used by many investors to provide an indication of cash available for distribution from ongoing operations prior to debt service, capital expenditures and income taxes and is often used to compare companies and Income Funds on the basis of ability to generate cash from ongoing operations. Distributable cash and pro forma distributable cash are performance metrics used by many investors to summarize the funds available for distribution to unitholders in an Income Fund.

Investors should be cautioned that EBITDA, distributable cash and pro forma distributable cash should not be construed as alternatives to net income, cash from operations or other financial measures determined in accordance with GAAP as indicators of the Fund's performance. The Fund's method of calculating EBITDA, distributable cash and pro forma distributable cash may differ from other companies and Income Funds and, accordingly, may not be comparable to measures used by them.

Management's Discussion & Analysis

of Operating Results and Financial Position for the year ended December 31, 2003

Distributable Cash

The Fund generated distributable cash totaling $17.8 million during 2003, which represents $0.98 per unit. This figure was impacted directly by the timing of acquisitions and related financings during the year. The summer months are the key drivers in the packaged ice business. The Saxony, Diamond and Brandywine acquisitions were completed after the peak point in the sales season. As a result, Arctic Glacier realized minimal contribution from the prime selling season, while at the same time absorbing all of the fourth quarter operating losses that are typical in the packaged ice industry. The financing for these acquisitions included proceeds from units issued through the 2003 equity offerings. Because of the seasonal nature of the Company's business, monthly distributions are equalized over the course of the year, and the impact of paying distributions on units issued to fund acquisitions is disproportionate to the distributable cash generated by the related acquisitions, which would generally be concentrated in the prime spring and summer months. Management feels that the consideration paid for these acquisitions reflects the timing during the year at which they were completed.

In order to provide a determination of distributable cash on an annualized basis, a pro forma calculation has been provided on a basis estimating the impact if the acquisitions and financings had occurred at the beginning of the year, and excludes the dilutive effect of the units issued related to the $30.7 million of proceeds of the October equity offering that had not been deployed at December 31, 2003. Management of the Fund expects that the majority of these funds will be deployed before the 2004 peak summer season.

On a pro forma basis, the Fund would have generated distributable cash totaling $22.1 million in 2003, which would represent $1.11 per unit. This amount is down from $1.12 per unit in 2002 primarily as a result of the stronger Canadian dollar which has reduced the Canadian dollar value of distributable cash generated by U.S. operations, offsetting the accretion provided by the acquisitions made during 2003.

Management is confident that the acquisitions made in 2003 will be accretive to distributable cash per unit in their first full fiscal year of operations in 2004, and that the Fund will generate sufficient cash in 2004 to exceed the current distribution rate of $1.07 on an annualized basis.

Distributable Cash

(thousands)	2003 Pro forma	2003	2002 Pro forma
Net earnings	$ 10,764	$ 10,764	$ 9,227
Net earnings adjustments:			
Amortization	10,225	10,225	9,791
Gain on settlement of long-term debt	–	–	(754)
Loss (gain) on disposal of property, plant and equipment and operating assets and goodwill	387	387	(779)
Future income taxes	(414)	(414)	1,044
	20,962	20,962	18,529
Less sustaining capital expenditures, net of dispositions	(3,168)	(3,168)	(3,317)
Distributable cash before pro forma adjustments	17,794	17,794	15,212
Pro forma adjustments	4,316(1)	–	2,353(2)
Distributable cash after pro forma adjustments	$ 22,110	$ 17,794	$ 17,565
Weighted average number of units	19,960(3)	18,173	15,656(4)
Distributable cash per unit	$ 1.11	$ 0.98	$ 1.12
Distributions declared		$ 19,744	$ 12,761
Distributions declared per unit		$ 1.07	$ 0.82
Distributions declared per unit (annualized)		$ 1.07	$ 1.05

(1) Pro forma adjustments for 2003 reflect an increase to EBITDA of $4,702 to give effect to the acquisitions made during the year as if they had been acquired on January 1, 2003, an increase to interest expense of $205 to give effect to financing the acquisitions as if they had been acquired on January 1, 2003, and an increase to interest expense of $181 to give effect to the increase in debt if the undeployed proceeds from the October 8, 2003 equity offering were not available to reduce debt from October 9 to December 31, 2003.

(2) Pro forma adjustments for 2002 reflect reduction of interest expense in the amount of $1,572 during the period January 1, 2002 to March 22, 2002 to give effect to the completion of the IPO, acquisition of The Arctic Group Inc. and repayment and refinancing of certain long-term debt instruments as if they had occurred on or before January 1, 2002, and elimination of non-recurring costs of $781 related to the Plan of Arrangement of March 22, 2002.

(3) Based on 19,960 units, being the pro forma weighted average number of units outstanding during the year ended December 31, 2003 to give effect to the October 8, 2003 equity offering as if the units related to the proceeds deployed during the year had been issued and outstanding on January 1, 2003 and the units related to the proceeds not deployed during the year had not been issued.

(4) Based on 15,656 units, being the pro forma weighted average number of units outstanding during the year ended December 31, 2002.

The Fund declared cash distributions totaling $19.7 million or $1.07 per unit in 2003, following an increase in the monthly distributions in January 2003 to $0.0892 per unit. This is an increase compared to 2002 when the Fund declared cash distributions totaling $12.8 million or $0.82 per unit for the portion of the year that it was an income trust, equivalent to $1.05 per unit on an annualized basis.

Of the distributions declared in 2003, $0.57 per unit or 53.5% is taxable as income in the hands of unitholders, while $0.50 or 46.5% represents a return of capital that reduces the adjusted cost base of unitholder's Fund units.

2003 distributions

			Distributions			
Month	Record Date	Payment Date	Other Income	Dividend	Return of Capital	Total
January	January 31, 2003	February 14, 2003	$ 0.0560	$ –	$ 0.0332	$ 0.0892
February	February 28, 2003	March 14, 2003	0.0506	–	0.0386	0.0892
March	March 31, 2003	April 15, 2003	0.0560	–	0.0332	0.0892
April	April 30, 2003	May 15, 2003	0.0542	–	0.0350	0.0892
May	May 30, 2003	June 13, 2003	0.0560	–	0.0332	0.0892
June	June 30, 2003	July 15, 2003	0.0463	–	0.0429	0.0892
July	July 31, 2003	August 15, 2003	0.0479	–	0.0413	0.0892
August	August 29, 2003	September 15, 2003	0.0479	–	0.0413	0.0892
September	September 30, 2003	October 15, 2003	0.0463	–	0.0429	0.0892
October	October 31, 2003	November 14, 2003	0.0377	–	0.0515	0.0892
November	November 28, 2003	December 15, 2003	0.0365	–	0.0527	0.0892
December	December 31, 2003	January 15, 2004	0.0377	–	0.0515	0.0892
2003 Total			**$ 0.5731**	**$ –**	**$ 0.4973**	**$ 1.0704**
Percent of total			53.5%	–	46.5%	100.0%

Results of Operations

The Fund is considered to be a continuation of The Arctic Group Inc. following the continuity of interest method of accounting. As a result, these financial results reflect a continuation of The Arctic Group Inc.

Sales

Sales reached a new high of $97.2 million in 2003, exceeding the previous record of $91.7 million established in 2002 by $5.5 million or 6%.

The increase in sales is primarily attributable to acquisitions made in 2003 in the Pennsylvania and New York markets, as well as a smaller acquisition in Nebraska. These acquisitions contributed $12.3 million to sales during the year.

Sales in previously serviced markets were up by $0.2 million or 0.2% compared to 2002. Most Canadian market areas experienced cool and wet spring weather conditions this year, putting a damper on outdoor activity. Western Canadian market areas generally experienced seasonable weather conditions during the summer, which was an improvement over the previous year. However, Arctic Glacier's eastern Canadian markets experienced unseasonably cooler temperatures during the first half of summer combined with reduced consumer demand resulting from the impact of Severe Acute Respiratory Syndrome (SARS) on tourism and recreation. This is compared to the relatively hot, dry conditions experienced throughout the summer of 2002. The power outage on August 14 affected most of southern Ontario and was accompanied by warmer weather, which did result in increased sales during the latter half of August, although these were accompanied by additional costs associated with transporting ice into the affected markets.

Arctic Glacier's central U.S. market areas generally experienced cool and wet spring weather conditions for the second year in a row. Summer weather returned to seasonable levels throughout most of the Company's market areas, although temperatures were not as hot as they were in July and August of 2002. The northeastern U.S. enjoyed favorable weather conditions during the latter part of the summer and the New York market also faced the power outage on August 14, which resulted in increased sales, although these were accompanied by additional costs associated with transporting ice into the New York market.

Sales were negatively impacted by a stronger Canadian dollar in 2003, which decreased the Canadian dollar value of the sales generated in U.S. markets by $6.2 million compared to 2002.

Sales were also down as a result of the disposal of certain non-core business operations in northern Alberta and western Texas during the first half of 2002. These operations contributed $0.8 million to sales in 2002.

Management's Discussion & Analysis

of Operating Results and Financial Position for the year ended December 31, 2003

Cost of sales, selling, general and administration expenses

Cost of sales, selling, general and administration expenses increased by $6.0 million to $72.7 million in 2003. As a percentage of sales, costs increased from 72.7% of sales in 2002 to 74.8% in 2003.

The increase in costs primarily results from the expanded scope of operations during the latter part of the year with the acquisitions in the Pennsylvania and New York markets, expansion of the Company's staffing and systems infrastructure during the first half of the year to accommodate acquisitions, and additional costs incurred to purchase and transport ice into markets affected by the August power outage. These amounts were partially offset by the stronger Canadian dollar, which decreased reported costs by $4.2 million compared to 2002.

The increase in costs as a percentage of sales is primarily the result of four factors:

- Higher cost levels generally incurred with newly acquired operations over the first 18 to 24 months until the full effect of cost savings and efficiencies are realized;
- Additional fixed costs that represent a greater proportion of sales for business operations that are acquired during the last half of the year as a result of the seasonal fluctuations in sales levels;
- Increased costs incurred during the year in advance of acquisitions as the Company began to create the staffing and systems infrastructure necessary to support the growth strategy; and,
- The higher per unit cost of ice that was shipped from other Company locations, or purchased and shipped from third parties, to maintain customer service levels in Arctic Glacier's New York and Ontario markets affected by the August power outage.

EBITDA

EBITDA totaled $24.5 million in 2003, a decrease of 2% compared to 2002. This decrease was primarily due to the timing of significant acquisitions during the last half of the year resulting in a disproportionately higher weighting towards the fourth quarter, which is characterized by higher fixed costs as a percentage of sales and marginal or negative EBITDA. EBITDA was also reduced by the additional costs incurred to create the infrastructure necessary to acquire and integrate new business operations and the costs of purchasing and shipping ice into the markets affected by the August power outage. The stronger Canadian dollar reduced reported EBITDA by $1.9 million compared to 2002.

EBITDA performance as a percentage of sales (EBITDA margin) totaled 25.2% in 2003, which is down from 27.3% for the previous year. This decrease was primarily due to the timing of the larger acquisitions during the latter part of the year when fixed costs are a higher proportion of sales, the lower margins that are generally realized with newly acquired operations until the cost savings associated with rationalization take effect, the additional costs necessary to support the growth strategy and the cost of purchasing and shipping ice into the New York and Ontario markets during and after the power outage.

Amortization

Amortization expense totaled $10.2 million in 2003, an increase of $0.4 million or 4% compared to the previous year. As a percentage of sales, amortization decreased to 10.5% in 2003 from 10.7% in 2002. Amortization was comprised of:

(thousands)		2003		2002
Property, plant and equipment	**$**	**8,657**	$	8,352
Non-competition agreements		**250**		63
Deferred development costs		**303**		151
Deferred financing costs		**874**		1,059
Other		**141**		166
		1,568		1,439
Total amortization	**$**	**10,225**	$	9,791

Amortization of property, plant and equipment totaled $8.7 million in 2003, an increase of $0.3 million or 4% compared to 2002. Acquisitions and capital expenditures made during the year increased amortization by $0.9 million; offset by the impact of the stronger Canadian dollar which has reduced the Canadian dollar value of amortization of U.S. assets by $0.6 million compared to 2002.

Amortization of other assets totaled $1.6 million in 2003, an increase of $0.1 million or 9% compared to 2002. Increases resulted from new non-competition agreements related to acquisitions made in 2003 and a reduction of the amortization period for deferred development costs to five years from ten. These increases were offset by a reduction of amortization of deferred financing costs as a result of the lenders' agreement to extend the term of the revolving credit facility by one year to March 20, 2005.

Interest

Interest expense totaled $1.6 million in 2003, a decrease of $2.3 million or 59% compared to the previous year. The decrease results primarily from significantly lower debt levels during the first quarter of 2003 compared to the first quarter of 2002, as the Company substantially reduced long-term debt with the proceeds of the March 2002 initial public offering of income trust units. Although the size of the credit facility has increased during 2003 to finance business acquisitions made during the year, debt levels have generally been lower in 2003 as proceeds of the June and October 2003 equity offerings were temporarily applied against the debt outstanding on the credit facility during the year pending their deployment for acquisitions. The average cost of debt decreased to 3.1% in 2003 from 5.8% in 2002.

Acquisition integration charges

Acquisition integration costs reflect the non-recurring expenses associated with integrating acquired operations into Arctic Glacier's business model, subsequent to the completion of the acquisition, along with the costs of maintaining an acquisition department. Acquisition integration costs totaled $0.2 million in 2003.

Loss (gain) on disposal of property, plant and equipment and operating assets and goodwill

Losses on disposal of property, plant and equipment totaled $0.4 million in 2003, resulting from the disposition of property and redundant production and packaging equipment of a small inefficient manufacturing facility in Bismarck, North Dakota that was closed during the year, and the disposition of older distribution rolling stock and equipment in western Canada and the U.S.

Gains on disposal of property, plant and equipment and operating assets and goodwill totaled $0.8 million in 2002, comprised of a gain of $1.5 million from the sale of assets of a non-core carbon dioxide business in northern Alberta, offset by net losses totaling $0.6 million from the sale of assets of a non-core equipment business in Texas and $0.1 million from the sale of surplus property and redundant equipment.

Non-recurring expenses

Non-recurring expenses totaled $0.2 million in 2003 and were primarily comprised of costs associated with investigating potential business acquisitions that the Fund elected not to pursue.

Non-recurring expenses totaled $1.4 million in 2002, including $0.8 million for completing the Plan of Arrangement and reorganizing The Arctic Group Inc. into an income fund. The balance of $0.6 million includes severance and other costs related to centralizing corporate data, accounting and administrative functions along with costs associated with resolving issues and contracts for acquisitions made in previous years.

Income tax expense

The Fund is a mutual fund trust as defined under the Income Tax Act, and as a result is not subject to taxation on its income to the extent that it is distributed to unitholders. Accordingly, the consolidated tax rate for 2003 was substantially lower than the Canadian statutory rate of 36.9%.

The income tax recorded in the consolidated financial statements all relates to Arctic Glacier and its subsidiaries. Income tax expense decreased by $1.1 million; from $2.1 million in 2002 to $1.0 million in 2003.

Income tax expense of $1.0 million in 2003 was comprised of $0.8 million of large corporation, capital, state and withholding taxes and $0.3 million related to the recognition of income tax rate changes on future income taxes. These amounts were offset by $0.1 million of income tax recovery on the net tax loss from operations that resulted after deducting earnings of the Fund taxed in the hands of unitholders.

Income tax expense of $2.1 million in 2002 was comprised of $1.1 million of income tax on earnings from operations, after deducting earnings of the Fund, $0.6 million of large corporation, capital, state and withholding taxes, $0.3 million on gain on settlement of long-term debt, $0.3 million on gain on disposal of capital and operating assets and goodwill, and $0.4 million related to the recognition of income tax rate changes on future income taxes. These amounts were offset by income tax recoveries of $0.6 million on non-recurring expenses.

Earnings and earnings per unit

Earnings totaled $10.8 million for 2003, an increase of $1.5 million or 17% compared to the previous year. On a per unit basis, net earnings (basic) decreased to $0.59 for 2003 compared to $0.67 (basic) in 2002 as a result of the increased number of units outstanding subsequent to the equity offerings in June and October and the timing of acquisitions that were funded with the resulting net proceeds.

Quarterly results

Summary of Quarterly Results

(thousands, except per unit amounts)	Total	Q1	Q2	Q3	Q4
2003					
Sales	$ 97,170	$ 7,596	$ 25,615	$ 48,219	$ 15,740
EBITDA	24,462	(3,621)	8,317	20,413	(647)
Net earnings (loss)	10,764	(3,358)	4,059	11,351	(1,288)
Earnings (loss) per unit:					
Basic	0.59	(0.21)	0.26	0.62	(0.06)
Diluted	0.59	(0.21)	0.26	0.62	(0.06)
2002					
Sales	91,719	8,534	27,171	44,598	11,416
EBITDA	25,004	(3,194)	9,096	19,573	(471)
Net earnings (loss)	9,227	(3,778)	4,147	11,041	(2,183)
Earnings (loss) per unit:					
Basic	0.67	(0.54)	0.26	0.70	(0.14)
Diluted	0.66	(0.54)	0.26	0.70	(0.14)

The majority of Arctic Glacier's operations are in Canada and the north central and northeastern United States. As a result, the business is affected by seasonal weather patterns. Demand for packaged ice is very light during the first four months of the year, which are characterized by negative EBITDA and significant losses. Demand picks up in spring but is very dependent upon temperature and precipitation. As a result, May and June enjoy positive EBITDA and modest earnings. The third quarter of the year includes the peak summer sales period and is the financial driver for the business. Demand tapers off after the summer season ends and, as a result, the last quarter of the year is characterized by slightly negative EBITDA and losses.

On a quarterly basis, sales, EBITDA, net earnings (loss) and earnings (loss) per unit were impacted by both acquisitions made in 2003 and by the stronger Canadian dollar compared to 2002.

Liquidity and Capital Resources

Cash from operating activities

Funds from operations totaled $21.0 million in 2003, an increase of $3.7 million or 22% compared to the previous year. The increase is primarily due to reduced interest expense and non-recurring costs in 2003, along with additional costs in 2002 related to the Plan of Arrangement and to terminate an interest rate swap contract.

Changes in working capital items provided a net source of cash of $2.2 million in 2003 compared to $0.2 million in 2002. The net source of cash resulted primarily from collection of receivable balances acquired during the year through acquisition and from proceeds of a previous year's insurance claim, as well as an increase in payables resulting from the increased scope of operations resulting from acquisitions. These amounts were offset by increased inventory levels resulting from the expanded scope of operations and taking receipt of certain production inputs earlier in the supply cycle to take advantage of cost savings offered by suppliers, along with an increase in prepaid expenses related to the larger scope of operations and costs paid related to acquisitions that had not been completed by the end of the year.

Cash used in investing activities

Investing Activities

(thousands)	2003	2002
Sustaining capital expenditures, net of dispositions	**$ 3,168**	$ 3,317
Growth capital expenditures	**5,125**	97
Acquisitions	**50,834**	–
Disposition of non-core business operations	**–**	(3,105)
Additions to other assets	**932**	2,161
Additions to intangibles and goodwill	**70**	34
Cash used in investing activities	**$ 60,129**	$ 2,504

Cash used in investing activities totaled $60.1 million in 2003, primarily the result of acquisitions and capital expenditures made during the year. Capital expenditures include sustaining and growth capital expenditures. Sustaining capital expenditures are made to maintain existing levels of production and service and are funded from operating cash flow. Growth capital expenditures are made to expand the Company's business or generate cost savings and are excluded from the calculation of distributable cash as they are funded by cash, debt or equity. Growth capital expenditures are made only when it is expected that they would ultimately result in increased distributable cash.

Sustaining capital expenditures totaled $3.2 million or 3.3% of sales in 2003, compared to $3.3 million or 3.6% of sales in 2002. The decrease as a percent of sales results from the timing of acquisitions during the year, as most capital projects are scheduled in the slower winter season and the acquisitions were made after this time period. Sustaining capital expenditures are expected to average approximately 4% of sales on an annual basis.

Growth capital expenditures totaled $5.1 million in 2003 and included the purchase of the production and distribution facility in West St. Paul, Minnesota that Arctic Glacier previously leased, technology for acquired operations to convert them to Arctic Glacier's common technology infrastructure, and equipment and merchandising assets that are expected to have a positive impact on distributable cash.

Cash totaling $50.8 million was used for acquisition of business operations including the acquisition of the ice division assets of Ice Castles Inc. of Nebraska in March and Rosenberger Ice in Pennsylvania in June, the acquisition of 100% of the common stock of Saxony Ice and Diamond Ice of New York in July and Brandywine Ice in October.

Summary of Acquisitions

(thousands)	Date		Cash		Costs		Total
Ice Castles, Inc.	March 6, 2003	$	1,094	$	141	$	1,235
Rosenberger Ice	June 26, 2003		4,858		838		5,696
Springdale Ice Company and Diamond Ice Cube Company Inc. (1) (2)	July 25, 2003		27,005		981		27,986
Brandywine Ice Company (3)	October 31, 2003		15,086		831		15,917
		$	48,043	$	2,791	$	50,834

(1) Excludes deferred consideration of $975 that will be paid over a five year period.

(2) Includes bank indebtedness assumed of $569.

(3) Includes bank indebtedness assumed of $139.

The Company generated proceeds of $3.1 million during 2002 as a result of divesting of assets related to non-core business activities. In February 2002, Arctic Glacier disposed of a carbon dioxide business that serviced the northern Alberta market, and in May the Company disposed of an equipment sales and leasing business that serviced hotels and restaurants in western Texas.

Additions to other assets, intangibles and goodwill totaled $1.0 million in 2003, primarily related to securing additional financing for acquisitions and extending the maturity of the credit facility to March 2005. In 2002, additions to other assets, intangibles and goodwill totaled $2.2 million, comprised of $2.1 million of costs related to establishing the new credit facility, and $0.1 million of costs related primarily to establishing the franchise program and registering certain trademarks.

Cash from financing activities

Cash generated by financing activities totaled $39.2 million in 2003, primarily as a result of the issuance of 7.6 million trust units for net proceeds of $71.0 million through two equity offerings and the Distribution Reinvestment and Optional Cash Purchase Plan (DRIP).

The Fund repaid a net total of $12.7 million of long-term debt and capital lease obligations in 2003. The Fund temporarily applied $30.7 million of equity proceeds that was not used for acquisitions within the year against the debt outstanding on the credit facility and it made payments of $0.4 million against loans and notes outstanding and $0.3 million against capital lease obligations. These repayments were offset by $16.6 million of debt drawn to finance acquisitions and $2.1 million for working capital. During 2003, the Fund used $19.0 million of cash for distributions to unitholders.

In 2002, the Fund used $5.1 million of cash in financing activities as follows:

- $133.9 million generated from financing activities, including $79.1 million of net proceeds from the Initial Public Offering of trust units in March, $54.2 million of long-term debt drawn on the new credit facilities, and $0.6 million from the exercise of options for common shares of The Arctic Group Inc. prior to the reorganization;
- $127.6 million used in financing activities, comprised of $118.7 million of proceeds from the IPO and the new credit facility used to retire senior debt and subordinated debentures, $2.1 million from the sale of non-core assets used to reduce senior debt, $1.4 million drawn on the new credit facility to retire convertible debentures and related interest, $5.1 million to retire loans payable and $0.3 million applied against obligations under capital leases; and,
- $11.4 million used for distributions to unitholders.

Management's Discussion & Analysis

of Operating Results and Financial Position for the year ended December 31, 2003

Sources of Liquidity

The Fund issued a total of 7.61 million units during 2003 as a result of two equity offerings and the DRIP as follows:

Equity Issued

(thousands, except per unit amounts)

Equity offerings	Number of units issued	Price per unit	Gross proceeds	Net proceeds
June 25, 2003	2,650	$ 9.50	$ 25,175	$ 23,581
October 8, 2003	4,950	10.10	49,995	47,230
DRIP	15	9.45	143	143
	7,615		$ 75,313	$ 70,954

The Fund completed two equity offerings during the year. In June 2003 the Fund issued 2.65 million trust units at a price of $9.50 per unit for net proceeds of $23.6 million after deducting for underwriter's fees and other issuance costs of $1.6 million. In October 2003 the Fund issued 4.95 million units at a price of $10.10 per unit for net proceeds of $47.2 million after deducting for underwriter's fees and other issuance costs of $2.8 million.

The Fund established a Distribution Reinvestment and Optional Cash Purchase Plan in September 2003, which allows unitholders to reinvest distributions in exchange for Fund units at a 5% discount to the 10 day trailing average market price, and to contribute additional cash amounts, with certain restrictions, in exchange for Fund units at the average market price.

The Fund invested $40.3 million of the proceeds of the equity offering in acquisitions and growth capital expenditures during the year, leaving $30.7 million of equity still available for investment. Subsequent to the end of the year, the Fund utilized approximately $8.8 million of these funds for a business acquisition in the New York market.

Use of Equity Proceeds

(thousands)

Net proceeds from equity issued in 2003	$ 70,954
Uses of Equity in 2003:	
Acquisition of Ice Castles	1,235
Acquisition of Rosenberger Ice	5,696
Acquisition of Saxony Ice & Diamond Ice Cube Co.(1)	28,961
Acquisition of Brandywine Ice (2)	15,917
Growth capital expenditures	5,125
Less debt funding	(16,649)
	40,285
Balance of Equity Proceeds available for investment at December 31, 2003	$ 30,669

(1) Includes deferred consideration of $975 and bank indebtedness assumed of $569 that was subsequently retired.

(2) Includes bank indebtedness assumed of $139 that was subsequently retired.

During 2003, the Fund obtained amendments to its multi-currency credit facility increasing the maximum amounts available under the facility by U.S. $13.5 million to finance growth capital expenditures and the acquisitions of Ice Castles, Rosenberger, Saxony and Diamond. The operating line of credit was also increased by $1.0 million to a maximum of $6.0 million Canadian to provide for increased liquidity requirements that result from the increased scale of operations. During the year, the Fund's lenders also exercised their option to extend the maturity date of the credit facility by one year to March 20, 2005.

At December 31, 2003, the Fund's credit facilities consisted of a $23.4 million Canadian revolving facility and a U.S. $33.5 million revolving facility, as well as a $6.0 million operating line of credit. The Canadian revolving facility and the operating line of credit can be drawn in either Canadian or U.S. dollars. At December 31, 2003, the Fund had $21.8 million outstanding on the Canadian revolving facility, and U.S. $7.6 million outstanding on the U.S. revolving facility for a total of $31.6 million. This amount is offset by $0.9 million representing debt service reserve funds that are on deposit with the lender. These funds bear interest at floating rates based on LIBOR or Bankers' Acceptances that average 2.9% at December 31, 2003. No amounts were drawn on the line of credit at December 31, 2003. At December 31, 2003, the Fund had available credit of $1.6 million on the Canadian revolving facility, U.S. $25.9 million on the U.S. revolving facility, and $6.0 million on the operating line of credit.

The Fund had total debt outstanding at December 31, 2003 of $32.0 million, comprised of senior debt of $30.7 million, other loans payable of $0.9 million and obligations under capital leases of $0.4 million. This compares to $54.3 million of total debt at December 31, 2002, comprised of senior debt of $53.2 million, obligations under capital leases of $0.8 million and other loans payable of $0.3 million. Net debt[1] decreased by $21.4 million or 50% from $42.4 million at the end of 2002 to $21.0 million at the end of 2003. The decrease is primarily attributable to the equity proceeds which had not yet been invested at December 31, 2003.

The Fund's net debt to equity ratio at the end of the year has improved from 0.4:1 in 2002 to 0.1:1 for 2003. The net debt to EBITDA ratio at the end of the year has improved from 1.7:1 in 2002 to 0.9:1 in 2003. The most significant component of this improvement is the equity proceeds that were temporarily being used to reduce indebtedness at the end of the year. Excluding these funds totaling $30.7 million, the net debt to equity ratio at the end of the year would be 0.3:1 and the net debt to EBITDA ratio (with EBITDA increased by $4.7 million to give effect to the trailing 12 month contribution of acquisitions) would be 1.8:1. The Fund's intention is to maintain a net debt to EBITDA ratio of less than 2.25:1, excluding any temporary bridge financing of future acquisitions.

Cash flow from operations, together with cash on hand and unutilized credit available on existing credit facilities are expected to be sufficient to meet operating requirements, capital expenditures and anticipated distributions.

(1) Net debt is defined as total long-term debt and obligations under capital leases reduced by cash.

Contractual Obligations

The Fund and its subsidiaries have contractual obligations that require future payments as follows:

Contractual Obligations

(thousands)	Total commitments	Payments Due by Period: Within 1 year	2 - 3 years	4 - 5 years	After 5 years
Long-term debt	$ 31,580	$ 203	$ 31,077	$ 300	$ –
Capital leases	481	441	40	–	–
Operating leases	13,433	3,453	4,513	2,105	3,362
Purchase obligations	1,254	1,254	–	–	–
Total contractual obligations	$ 46,748	$ 5,351	$ 35,630	$ 2,405	$ 3,362

Additional disclosure on long-term debt and capital and operating leases is provided in notes 9, 8 and 18, respectively, to the consolidated financial statements. Purchase obligations of $1.2 million are entirely comprised of capital expenditures related to the refurbishment and upgrade of two manufacturing facilities in one of Arctic Glacier's key markets that is expected to be completed during the first and second quarters of 2004. Purchase obligations will be funded through a combination of debt and equity proceeds.

The Fund expects that its sustaining capital expenditures will average approximately 4% of sales on an annual basis in the future, and that these expenditures will be funded from working capital.

Accounting Policies and Estimates

Critical accounting policies and estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period, and would materially impact the Fund's financial condition, changes in financial condition or results of operations. The Fund's significant accounting policies are disclosed in note 2 of the notes to the consolidated financial statements. The Fund's management is of the opinion that the only critical accounting estimate that, if changed, would materially affect the Fund's financial condition or results of operation is that related to goodwill.

Goodwill – The application of Canadian Institute of Chartered Accountants ("CICA") Handbook section 3062 *"Goodwill and Other Intangible Assets"* requires that the excess of the purchase amount of acquisitions over the value of the identifiable net assets should not be amortized to earnings, but periodically tested for impairment. The Fund uses certain operating and financial assumptions to conduct its impairment test. This test uses current market information, when available, or other generally accepted valuation methods, such as discounted cash flows. Differences in assumptions regarding discount rates and projection of future operating cash flows could have a significant impact on the determination of the existence and amount of any impairment. These assumptions are tested against relevant independent information for consistency and reliability. Changes in estimates or assumptions could affect the goodwill impairment in the statements of operations and goodwill on the balance sheet of the Fund's consolidated financial statements.

New accounting policies adopted in 2003

Stock-based compensation – Effective January 1, 2003, the Fund adopted the new accounting standards for stock-based compensation and other stock-based payments. The Fund has a Unit Option Plan and can provide compensation to certain trustees, directors, officers and employees in the form of unit options. Unit option grants are expensed over the periods in which the related services are rendered using a fair-value-based method of accounting. No unit options have been granted under this plan as at December 31, 2003. As a result, the change does not have an impact on the consolidated financial statements.

New accounting policies expected to be adopted in subsequent years

GAAP Heirarchy – The new CICA Handbook section 1100, *"Generally Accepted Accounting Principles"*, has been issued, effective for fiscal years beginning on or after October 1, 2003. The new section established standards for financial reporting in accordance with GAAP. It clarifies the relative authority of various accounting pronouncements and other sources of guidance within GAAP. The new standard eliminates industry practice as a possible source to consult. The Fund does not expect that the implementation of this new standard will have a significant impact on its consolidated financial statements.

Hedging relationships – The CICA has issued Accounting Guideline AcG-13 *"Hedging Relationships"*, which should be applied to hedging relationships in effect in fiscal years beginning on or after July 1, 2003. The guideline presents the views of the CICA on the identification, designation, documentation and effectiveness of hedging relationships, for the purpose of applying hedge accounting, as well as on the discontinuance of hedge accounting. The guideline establishes certain conditions when hedge accounting may be applied. The Fund does not expect that the implementation of this guideline will have a significant impact on its consolidated financial statements.

Impairment of long-lived assets – The CICA has issued new accounting standards regarding the impairment of long-lived assets, which is effective for fiscal years beginning on or after April 1, 2003. The recommendation establishes standards for recognition, measurement and disclosure of the impairment of long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets. Under the new standards, an impairment must be recorded when the carrying amount of a long-lived asset is no longer recoverable and exceeds its fair market value. The Fund does not expect that the implementation of this new standard will have a significant impact on its consolidated financial statements.

Revenue Recognition – The Emerging Issues Committee (EIC) of the CICA issued EIC-141, *"Revenue Recognition"*, which is effective for annual and interim periods beginning on or after December 17, 2003. EIC-141 summarizes the principles set as interpretive guidance on the application of existing accounting standards for revenue recognition, specifically the criteria to be met for revenue recognition to be considered achieved. The Fund does not expect that the implementation of the accounting treatment presented in this EIC will have a significant impact on its consolidated financial statements.

Related Party Transactions

The Fund and its subsidiaries have not entered into any significant transactions with related parties during 2003 and do not have any amounts that are due from or due to related parties.

Business Risks

The Fund and its subsidiaries are subject to certain risks inherent in the operation of its business, including significant risks such as the effect of weather and seasonality on operating results, competition, interest rates and currency exchange rates. Risk and risk exposures to these and other risks are managed through a combination of insurance, a system of internal controls and sound operating practices.

Weather and seasonality

Weather can have a significant effect on operating results. Rain and cool weather can have an adverse effect on sales and earnings in any given market area, particularly if it occurs in the busy summer months.

The packaged ice industry is very seasonal. The Company usually generates significant sales and profits in the second and third quarters, with lower sales and significant losses incurred in the first and fourth quarters. Cash flows peak in the third and fourth quarters and drop off in the first and second quarters.

The Fund and its subsidiaries believe that its diverse geographic area of operations, and its liquidity and access to cash resources minimize the impact of these risks on financial performance.

Competition

The packaged ice industry is very competitive. The Company faces a number of competitors including smaller independent ice manufacturers, retailers that manufacture and package ice at individual store locations, and one larger competitor with a similar acquisition strategy. Competition exists mainly on a regional basis with the main competitive factors being price, service and product quality. Additionally, there can be no assurance that competitors will not achieve greater market acceptance due to pricing or other factors.

The Company is well equipped to deal with local competition through a strong relationship with customers, and in particular national chain accounts, size and efficiency of operations and a branded market leadership position. The Company's financial results, combined with the Fund's improved access to capital for future growth and expansion, significantly limit the ability of local competitors to have a significant effect on the financial results of the Fund.

Interest rates

The Fund and its subsidiaries have certain floating rate debt and may be negatively impacted by increases in interest rates, the effect of which would increase interest expense. To the contrary, if interest rates decline interest expense would be reduced.

At December 31, 2003, approximately $30.7 million of long-term debt was subject to floating rates and $1.3 million had fixed rates including capital lease obligations. As a result, a one-percentage point increase in average interest rates would increase annual interest expense by approximately $0.3 million.

The Fund continually monitors interest rates and takes appropriate action necessary to manage exposure in this area.

Currency risk

The Fund and its subsidiaries are subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. A substantial portion of cash flows are realized in U.S. dollars. Future growth is expected to be concentrated in the United States. Fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar may have an adverse effect on financial results.

The Fund and its subsidiaries have hedged their debt service capability by establishing their debt on a multi-currency basis and funding U.S. acquisitions with debt denominated in U.S. dollars, thereby allowing them to service and repay this debt directly from U.S. cash flows. The Fund also utilizes foreign exchange forward contracts to fix conversion rates on certain larger dollar transactions. As at December 31, 2003, the Fund did not have any foreign exchange forward contracts outstanding.

As at December 31, 2003, a $0.01 strengthening in the value of the Canadian dollar in relation to the U.S. dollar over the course of a fiscal year would reduce annual sales by approximately $0.6 million, EBITDA by $0.2 million, distributable cash by $0.1 million and distributable cash per unit by 0.6 cents per unit.

The Fund will continue to monitor exchange rates and take the appropriate action necessary to manage exposure in this area.

Management's Discussion & Analysis

of Operating Results and Financial Position for the year ended December 31, 2003

Outlook

The Fund is well positioned to continue profitable growth, while paying unitholder distributions, meeting debt obligations and preserving its robust financial position.

Management is confident that all acquisitions made during 2003 will be accretive to distributable cash per unit in their first full year of operations in 2004. The newly acquired operations will contribute cash flow for the entire year, including the peak summer period that some acquisitions missed because they were acquired later in 2003.

As the newly acquired operations are rationalized and integrated into their respective markets, synergies will be fully realized from 18 to 24 months following the acquisitions. This occurs as management reduces costs and improves efficiencies with production processes, distribution networks and administrative infrastructure. Arctic Glacier has proven its capability to manage the integration process and realize improvements in acquired operations.

Arctic Glacier is also exploring other opportunities such as new product offerings. The Company will be introducing a re-closeable package in one of its key markets during the 2004 season. This packaging has been well received by retailers and consumers during test marketing, and plans call for its introduction into more market areas over the next few years.

The Fund possesses significant capacity to make further acquisitions. At December 31, 2003 the Fund had approximately $30.7 million available for investment from the October 2003 equity offering. When combined with debt financing at the Fund's disposal, the total exceeds $50.0 million. Arctic Glacier is actively pursuing accretive acquisition opportunities and management expects to invest the majority of undeployed equity prior to the peak summer season of 2004. In the first quarter of fiscal 2004, the Fund acquired Leisure Time Ice, further expanding Arctic Glacier's market position in New York State. Geographically, the Fund will continue to focus on markets where a significant regional presence can be achieved, including the densely populated northeastern U.S.

In regions that Arctic Glacier considers strategically attractive but where no accretive acquisition possibilities exist, management will consider franchising as a means of expanding market share. This has proven to be a low-cost, mutually beneficial arrangement for both Arctic Glacier and the packaged ice company it partners with.

Arctic Glacier's reliable cash flow, solid balance sheet and energetic management place the Fund in a strong position to increase distributable cash in 2004 and beyond. These characteristics position the Fund as a secure income trust with abundant potential for continued growth.

Subsequent Event

In March 2004, a subsidiary of the Fund acquired the assets of the ice products division of A. T. Reynolds & Sons, Inc. of Kiamesha Lake, New York for aggregate consideration of approximately $8.9 million. The division, which operates under the name Leisure Time Ice, is the market leader in its area servicing central New York State, parts of New York City, northern and central New Jersey and northeastern Pennsylvania. It operates a manufacturing facility in Kiamesha Lake and distribution centers in Newburgh, New York and Raritan, New Jersey. Leisure Time Ice has estimated annual sales of $5 million, and the Fund expects that the acquisition will be accretive to both earnings and distributable cash on an annual basis.

Forward-Looking Statements

This annual report contains forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and its subsidiaries. Forward-looking statements typically contain words such as "anticipates", "believes", "continue", "could", "expects", "indicates", "plans" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including risks associated with the impact of adverse or favorable weather conditions, seasonality on labor and distribution, competition, compliance with government regulations, currency risk, dependence on key personnel, product liability, environmental risk, risks associated with acquisitions, expansion into the United States, effects of price changes in raw materials, restrictions on potential growth and debt refinancing. Although the forward-looking statements contained in this annual report are based upon what management believes to be reasonable assumptions, the Fund cannot assure readers that actual results will be consistent with these forward-looking statements.

These forward-looking statements are made as at the date of this annual report, and the Fund assumes no obligation to update or revise them, either publicly or otherwise, to reflect new events, information or circumstances.

Financial Results 2003

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Arctic Glacier Income Fund for the year ended December 31, 2003 and all information in this annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the consolidated financial statements. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Fund, are described in note 2 to the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgements, have been properly reflected. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and to produce reliable accounting records for the preparation of financial information.

The Fund's independent auditors, KPMG LLP, have been appointed by the unitholders to audit the financial statements and express an opinion thereon.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Trustees carries out this responsibility principally through its audit committee, composed entirely of outside and unrelated directors. The audit committee meets regularly with financial management of the Fund and with the independent auditor to discuss internal controls, audit matters, financial reporting issues and reports to the board of trustees thereon. The audit committee also reviews and approves the consolidated financial statements for inclusion in the annual report. The independent auditor has full and free access to the audit committee.

March 2, 2004

Robert J. Nagy
President and Chief Executive Officer

Keith W. McMahon, C.A.
Executive Vice President and Chief Financial Officer

Auditors' Report to the Unitholders

To the Unitholders of Arctic Glacier Income Fund

We have audited the consolidated balance sheets of Arctic Glacier Income Fund as at December 31, 2003 and 2002 and the consolidated statements of operations, cumulative earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada
March 2, 2004

Consolidated Balance Sheets

As at December 31, 2003 and 2002

(thousands)	2003	2002
Assets		
Current assets		
Cash	$ 11,032	$ 11,919
Accounts receivable	6,417	6,715
Inventories	3,515	2,377
Prepaid expenses	2,213	1,212
	23,177	22,223
Property, plant and equipment (Note 4)	89,061	76,770
Other assets (Note 5)	3,703	3,107
Intangibles (Note 6)	1,375	1,370
Goodwill (Note 7)	97,341	79,468
	$ 214,657	$ 182,938
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 8,366	$ 5,114
Distributions payable to unitholders	2,076	1,370
Current obligations under capital leases	427	325
Principal due within one year on long-term debt	203	292
	11,072	7,101
Obligations under capital leases (Note 8)	38	478
Long-term debt (Note 9)	31,377	53,227
Future income taxes (Note 14)	5,701	4,514
Unitholders' equity		
Capital contributions (Note 10)	200,905	129,951
Cumulative earnings	8,026	(2,738)
Cumulative distributions (Note 11)	(32,505)	(12,761)
Cumulative translation adjustment	(9,957)	3,166
	166,469	117,618
	$ 214,657	$ 182,938

See accompanying notes to consolidated financial statements.

On behalf of the Trustees:

James E. Clark, Chairman

Robert Nagy, Trustee

Consolidated Statements of Operations

Years ended December 31, 2003 and 2002

(thousands, except per unit amounts)

	2003	2002
Sales	$ 97,170	$ 91,719
Cost of sales, selling, general and administration expenses	72,708	66,715
Earnings before the undernoted	24,462	25,004
Amortization	10,225	9,791
Interest (Note 12)	1,609	3,953
Acquisition integration charges	213	-
Gain on settlement of long-term debt (Note 13)	-	(754)
Loss (gain) on disposal of property, plant and equipment and operating assets and goodwill	387	(779)
Non-recurring expenses	241	1,420
Earnings before income taxes	11,787	11,373
Income tax expense (reduction) (Note 14)		
Current	1,437	1,102
Future	(414)	1,044
	1,023	2,146
Earnings for the year	$ 10,764	$ 9,227
Earnings per unit (Note 15)		
Basic	$ 0.59	$ 0.67
Diluted	$ 0.59	$ 0.66

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cumulative Earnings (Deficit)

Years ended December 31, 2003 and 2002

(thousands)

	2003	2002
Deficit, beginning of year, as previously reported	$ (2,738)	$ (7,063)
Restatement due to change in accounting policy regarding goodwill (Note 2)	–	(2,010)
As restated	(2,738)	(9,073)
Earnings for the year	10,764	9,227
Interest on equity portion of convertible debentures (net of applicable future income taxes of $78)	–	(117)
Settlement of warrants	–	(2,775)
Cumulative earnings (deficit), end of year	$ 8,026	$ (2,738)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

(thousands)	2003	2002
Cash from (used in):		
Operating activities		
Earnings for the year	$ 10,764	$ 9,227
Adjustments for:		
Amortization	10,225	9,791
Non-cash portion of gain on settlement of long-term debt	–	(1,609)
Non-cash portion of loss (gain) on disposal of property, plant and equipment and operating assets and goodwill	387	(1,204)
Future income taxes (reduction)	(414)	1,044
Funds from operations	20,962	17,249
Changes in working capital items (Note 16)	2,178	229
	23,140	17,478
Investing activities		
Additions to property, plant and equipment	(8,630)	(3,831)
Proceeds from disposal of property, plant and equipment and goodwill	337	3,522
Additions to other assets	(932)	(2,161)
Additions to intangibles	(5)	(34)
Additions to goodwill	(65)	–
Acquisition of business operations, net of bank indebtedness assumed of $708 (2002 - $0) (Note 3)	(50,834)	–
	(60,129)	(2,504)
Financing activities		
Proceeds from long-term debt	32,570	54,195
Principal repayments on long-term debt	(44,905)	(118,898)
Principal payments under capital lease obligations	(338)	(292)
Interest on equity portion of convertible debentures	–	(195)
Repayment of equity portion of convertible debentures	–	(1,233)
Shares issued on exercise of options	–	600
Units issued, net of issue costs	70,954	79,092
Cancellation of warrants	–	(7,049)
Cash distributions paid	(19,038)	(11,391)
	39,243	(5,171)
Foreign exchange gain (loss) on cash held in foreign currency	(3,141)	170
Increase (decrease) in cash	(887)	9,973
Cash, beginning of year	11,919	1,946
Cash, end of year	$ 11,032	$ 11,919
Supplementary cash flow information		
Interest paid	$ 1,914	$ 4,862
Income taxes paid	1,350	1,360

The portion of the purchase price of business operations satisfied by the issuance of deferred consideration in the amount of $975 (2002 - $0) has been excluded from the financing and investing activities on the Statements of Cash Flows.

See accompanying notes to consolidated financial statements.

(amounts in thousands, except per unit amounts)

1. ORGANIZATION

Arctic Glacier Income Fund (the "Fund") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on January 22, 2002. The Fund was created to invest in the packaged ice manufacturing and distribution business in Canada and the United States, initially through the acquisition of The Arctic Group Inc. by the Fund's wholly-owned subsidiary, Arctic Glacier Inc., which was completed on March 22, 2002. Arctic Glacier Inc. subsequently amalgamated with The Arctic Group Inc., with the amalgamated corporation retaining the name Arctic Glacier Inc. (the "Company").

The Company operates in the packaged ice industry in Canada and the United States and is active in acquiring ice manufacturing and distribution companies. In addition, the Company licenses its trade names and proprietary technology to independently owned companies in Canada and the United States under franchise and license agreements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The Fund is considered to be a continuation of The Arctic Group Inc. following the continuity of interest method of accounting. As a result, these consolidated financial statements reflect a continuation of The Arctic Group Inc.

The consolidated financial statements include the accounts of the Fund and its subsidiaries, all of which are wholly-owned. All significant inter-company transactions and balances have been eliminated.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Vehicles and equipment under capital leases are initially recorded at the present value of minimum lease payments at the inception of the lease. Amortization is provided on the following basis and at the following annual rates:

Asset	Basis	Rate
Buildings	Straight-line	4%
Machinery and equipment and equipment under capital leases	Straight-line	5% - 20%
Merchandisers	Straight-line	6.67% - 10%
Vehicles and vehicles under capital leases	Straight-line	13% - 20%
Computer and office equipment	Straight-line	20% - 33%
Leasehold improvements	Straight-line	20%

Other assets

Other assets are recorded at cost.

Non-competition agreement costs consist primarily of fees paid to sellers and other parties in business acquisitions. These costs are amortized on a straight-line basis over the terms of the non-competition agreements which generally range from two to five years.

Deferred development costs represent costs incurred to develop an in-store packaged ice machine. These costs are deferred and amortized over five years, being the estimated useful life of the technology. The Fund revised the estimated useful life of the deferred development costs and the amortization was adjusted accordingly from ten years to five years. The effect of the change is an increase in amortization expense for the year ended December 31, 2003 of approximately $151.

Deferred financing costs consist of financing fees incurred in connection with the issue of debt or the establishment of credit facilities. These costs are amortized on a straight-line basis over the term of the related debt or credit facility.

Other assets consist primarily of tradenames with finite lives that are acquired in business acquisitions and costs associated with establishing the franchise and licensing programs. These costs are amortized on a straight-line basis over periods ranging from two to five years.

Goodwill and other intangibles

Effective January 1, 2002, the Fund adopted new accounting standards for goodwill and other intangible assets on a retroactive basis without restatement of prior periods. Goodwill is the excess of the purchase price paid for acquired operations over the fair value of the net assets acquired.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are subject to a fair value impairment test to be performed at least annually to ensure that the fair value of goodwill and intangible assets with indefinite lives remains greater than, or equal to, the carrying value. Any excess of the carrying value over fair value will be charged to income in the period in which the impairment is determined.

As a result of the application of the new standard, the Fund segregated from goodwill the unamortized trademark costs for the name Arctic Glacier that had been obtained in a previous acquisition. The unamortized value of this trademark at January 1, 2002 was $1,336, which had been reclassified to other intangibles. No amortization is required on the value of the trademark, effective January 1, 2002, because the asset has an indefinite life.

The Fund completed a transitional impairment test to identify whether there was any potential impairment to goodwill and trademark costs as at January 1, 2002. The Fund determined that an impairment loss in the amount of $2,010 existed at January 1, 2002 related to the goodwill for one of its reporting units in the United States. The impairment tests completed for the Fund's other reporting units had determined that no other impairment losses have occurred. The impairment loss had been recorded as at January 1, 2002 and had been reflected as the cumulative effect of a change in accounting policy as at the date of adoption. Accordingly, the impairment loss of $2,010 had been recorded as a reduction in the opening balance of goodwill and an increase in the opening balance of the cumulative deficit at January 1, 2002

Revenue recognition

Revenue is recognized when packaged ice and other products are delivered to and accepted by customers. There is no right of return with respect to such products.

Revenue resulting from leased equipment is recognized as earned under contract terms.

Royalty fees from franchisees and licensees are recognized when the products are purchased from a third party by the franchisee or distributor, and franchise application fees are recognized when substantial performance has occurred.

Income taxes

The Fund is a mutual fund trust as defined under the Income Tax Act and accordingly, is not subject to taxation on its income to the extent that its income is distributed to its unitholders. The Fund's subsidiaries are subject to tax and follow the asset and liability method for accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Earnings per unit

Basic earnings per unit is computed by dividing net earnings by the weighted average units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted average number of units outstanding during the period, plus the effect of dilutive unit equivalents such as options and warrants. The diluted per unit amounts are calculated using the treasury stock method, as if all the unit equivalents where average market price exceeds issue price had been exercised at the beginning of the reporting period, or the period of issue, as the case may be, and that the funds obtained thereby were used to purchase units of the Fund at the average trading price of the units during the period.

Foreign currency translation

The financial statements of the U.S. subsidiaries, considered self-sustaining, are translated in accordance with the current rate method, under which assets and liabilities are translated at the currency exchange rate in effect at the balance sheet date and earnings statement items are translated at the average currency exchange rate for the period. Translation adjustments arising from currency exchange rate fluctuations, including those related to long-term debt denominated in U.S. dollars and designated as a hedge of net investments in self-sustaining foreign operations, are shown as "cumulative translation adjustment" under unitholders' equity until realized, at which time they are transferred to income.

Other monetary assets and liabilities denominated in U.S. dollars have been translated into Canadian dollars at the rate of exchange at the balance sheet date. Gains and losses from translation are recognized in income in the period they occur.

(amounts in thousands, except per unit amounts)

Unit-based compensation

Effective January 1, 2003, the Fund adopted new accounting standards for stock-based compensation and other stock-based payments. The Fund has a Unit Option Plan and can provide compensation to certain trustees, directors, officers and employees in the form of unit options. Unit option grants are expensed over the periods in which the related services are rendered using a fair-value-based method of accounting.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from those estimates and assumptions.

3. BUSINESS ACQUISITIONS

In March 2003, a subsidiary of the Fund acquired certain assets and operations of Ice Castles, Inc., which operated an ice manufacturing and distribution business in western Nebraska, for aggregate consideration of $1,094 (U.S. $741). In addition, the Fund has incurred acquisition and restructuring costs of $141 related to professional fees, employee severance and reorganization costs associated with the purchase of these assets and operations.

In June 2003, a subsidiary of the Fund acquired certain assets and operations of the ice division of Rosenberger Companies, Ltd. (operating as Rosenberger Ice), which operated an ice manufacturing and distribution business in eastern Pennsylvania, western New Jersey, northern Delaware and northeastern Maryland, for aggregate consideration of $4,858 (U.S. $3,593). In addition, the Fund has incurred acquisition costs of $838 related to professional fees and other costs associated with the purchase of these assets and operations.

In July 2003, a subsidiary of the Fund acquired 100% of the common stock of Springdale Ice Company of Mamaroneck, New York, which operated under the name Saxony Ice, and its affiliated company Diamond Ice Cube Company Inc. of Bronx, New York, for aggregate consideration of $27,411 (U.S. $20,240), including $975 (U.S. $720) of deferred consideration that will be paid over a five year period. These companies operate an ice manufacturing and distribution business in the New York City metropolitan area. In addition, the Fund has incurred acquisition costs of $981 related to professional fees and other costs associated with the acquisition of these companies.

In October 2003, a subsidiary of the Fund acquired 100% of the common stock of Brandywine Ice Company of Twin Oaks, Pennsylvania, which operated an ice manufacturing and distribution business in eastern Pennsylvania, New Jersey and northern Delaware, for aggregate consideration of $14,947 (U.S. $11,107). In addition, the Fund has incurred acquisition costs of $831 related to professional fees and other costs associated with the acquisition.

These transactions have been accounted for by the purchase method and the results of operations are included in the Fund's accounts from the dates of acquisition. Details of the acquisitions are as follows:

	Ice Castles	Rosenberger	Saxony & Diamond	Brandywine	TOTAL
Net assets acquired, at fair value:					
Current assets	$ 14	$ 725	$ 2,103	$ 940	**$ 3,782**
Property, plant and equipment	545	2,509	10,150	7,834	**21,038**
Other assets	184	318	826	143	**1,471**
Goodwill	492	2,144	19,679	7,501	**29,816**
	1,235	5,696	32,758	16,418	**56,107**
Less current liabilities	–	–	2,399	640	**3,039**
Less future income taxes	–	–	1,967	–	**1,967**
	$ 1,235	$ 5,696	$ 28,392	$ 15,778	**$ 51,101**
Purchase consideration:					
Cash	$ 1,094	$ 4,858	$ 26,436	$ 14,947	**$ 47,335**
Deferred consideration	–	–	975	–	**975**
Acquisition and restructuring costs	141	838	981	831	**2,791**
	$ 1,235	$ 5,696	$ 28,392	$ 15,778	**$ 51,101**

(amounts in thousands, except per unit amounts)

4. PROPERTY, PLANT AND EQUIPMENT

2003

	Cost	Accumulated Amortization	Net Book Value
Land	**$ 3,107**	**$ –**	**$ 3,107**
Buildings	**19,347**	**3,592**	**15,755**
Machinery and equipment and equipment under capital leases	**47,967**	**10,312**	**37,655**
Merchandisers	**35,779**	**11,077**	**24,702**
Vehicles and vehicles under capital leases	**13,746**	**10,151**	**3,595**
Computer and office equipment	**6,703**	**3,523**	**3,180**
Leasehold improvements	**1,890**	**823**	**1,067**
	$ 128,539	**$ 39,478**	**$ 89,061**

2002

	Cost	Accumulated Amortization	Net Book Value
Land	$ 2,546	$ –	$ 2,546
Buildings	17,765	3,451	14,314
Machinery and equipment and equipment under capital leases	38,731	7,326	31,405
Merchandisers	32,899	10,334	22,565
Vehicles and vehicles under capital leases	13,458	10,605	2,853
Computer and office equipment	5,027	2,240	2,787
Leasehold improvements	940	640	300
	$ 111,366	$ 34,596	$ 76,770

Amortization in respect of the above property, plant and equipment for the year ended December 31, 2003 amounted to $8,657 (2002 - $8,352).

5. OTHER ASSETS

2003

	Cost	Accumulated Amortization	Net Book Value
Non-competition agreements	**$ 1,324**	**$ 137**	**$ 1,187**
Deferred development costs	**1,517**	**561**	**956**
Deferred financing costs	**2,431**	**1,528**	**903**
Other	**1,131**	**474**	**657**
	$ 6,403	**$ 2,700**	**$ 3,703**

2002

	Cost	Accumulated Amortization	Net Book Value
Non-competition agreements	$ 179	$ 63	$ 116
Deferred development costs	1,517	258	1,259
Deferred financing costs	2,031	758	1,273
Other	785	326	459
	$ 4,512	$ 1,405	$ 3,107

The aggregate amortization expense for the above assets for the year ended December 31, 2003 totaled $1,568 (2002 - $1,439). This amount is comprised of amortization of non-competition agreements of $250 (2002 - $63), deferred development costs of $303 (2002 - $151), deferred financing costs of $874 (2002 - $1,059) and other assets of $141 (2002 - $166).

(amounts in thousands, except per unit amounts)

6. INTANGIBLES

Intangibles are comprised of the unamortized trademark costs for the name Arctic Glacier that was obtained in a previous acquisition. The changes in the carrying amount of intangibles are as follows:

	2003	2002
Balance, beginning of year	**$ 1,370**	$ –
Reclassification of trademark costs from goodwill (Note 2)	**–**	1,336
As restated	**1,370**	1,336
Additions	**5**	34
Balance, end of year	**$ 1,375**	$ 1,370

7. GOODWILL

The changes in the carrying amount of goodwill are as follows:

	2003	2002
Balance, beginning of year	**$ 79,468**	$ 83,849
Reclassification of trademark costs to other intangibles (Note 2)	**–**	(1,336)
Restatement due to change in accounting policy (Note 2)	**–**	(2,010)
As restated	**79,468**	80,503
Additions	**29,885**	–
Disposal of goodwill	**–**	(449)
Effects of foreign exchange	**(12,012)**	(586)
Balance, end of year	**$ 97,341**	$ 79,468

8. OBLIGATIONS UNDER CAPITAL LEASES

The Fund's subsidiaries lease vehicles and equipment under long-term capital leases. The following is a schedule of future minimum lease payments together with the balance of the obligations under capital leases:

	2003	2002
2003	**$ –**	$ 373
2004	**441**	448
2005	**40**	47
Total minimum lease payments	**481**	868
Amount representing interest (at rates ranging from 6.5% to 11.9%)	**(16)**	(65)
Present value of minimum capital lease payments	**465**	803
Less current obligations under capital leases	**427**	325
	$ 38	$ 478

9. LONG-TERM DEBT

	2003	2002
Multi-currency revolving credit facility	**$ 30,699**	$ 53,201
Loans and notes payable	**881**	318
	31,580	53,519
Less principal included in current liabilities	**203**	292
	$ 31,377	$ 53,227

(amounts in thousands, except per unit amounts)

The Fund and its subsidiaries have a multi-currency credit facility with a syndicate of lenders. The facility is revolving to a maximum of approximately $72,750, and includes a $6,000 line of credit. The facility bears interest at a floating rate, which at December 31, 2003 averaged 2.9% (2002 - 3.9%) and does not require scheduled principal repayments prior to maturity. During the year, the lenders exercised an option to extend the maturity date of the facility to March 20, 2005. The facility is secured by debentures issued by the Fund and its subsidiaries together with other security agreements providing both a fixed and floating charge over all of the assets and undertakings of the Fund and its subsidiaries. During the year ended December 31, 2003, the Company has incurred financing costs of approximately $400 (2002 - $2,031) related to this credit facility.

The balance outstanding on the credit facility at December 31, 2003 is $31,649 (2002 - $54,151) including $4,682 (2002 - $1,775) repayable in Canadian funds and U.S. $20,800 (2002 - $33,200) repayable in U.S. funds. This amount has been reduced by $950 (2002 - $950) representing debt service reserve funds that are on deposit with the lender.

The Company and its subsidiaries have various unsecured loans and notes payable outstanding at December 31, 2003 totaling $881 (2002 - $318). These loans and notes bear interest at a weighted average rate of 8% (2002 - 5.5%) and come due on various dates to July 25, 2008. Of the total amount outstanding, nil (2002 - $218) is repayable in Canadian funds and U.S. $680 (2002 - U.S. $63) is repayable in U.S. funds.

Principal repayments until maturity are as follows:

2004	$ **203**
2005	**30,890**
2006	**187**
2007	**187**
2008	**113**
	$ **31,580**

10. CAPITAL CONTRIBUTIONS

(a) Authorized

The Fund may issue an unlimited number of units pursuant to the Declaration of Trust. Each unit represents an equal fractional undivided beneficial interest in any distributions from the Fund, and in the net assets in the event of termination or wind-up of the Fund. All units are of the same class with equal rights and privileges.

(b) Issued

Fund units are included in unitholders' capital contributions on the consolidated balance sheet as follows:

	Number of Units (1)	Number of Shares (2)	Amount
Balance at December 31, 2001	–	36,260.2	$ 46,394
Shares issued on exercise of stock options	–	806.0	600
Shares issued on conversion of convertible debentures	–	2,523.7	3,785
Units issued on March 22, 2002 in exchange for The Arctic Group Inc. common shares (1 unit for 6 common shares)	6,598.4	(39,589.9)	–
Units issued on March 22, 2002, at $9.50 per unit, net of share issue costs of $6,908	9,052.6	–	79,092
Units issued on conversion of convertible debentures	8.9	–	80
Balance at December 31, 2002	15,659.9	–	$ 129,951
Units issued for cash consideration on June 25, 2003, at $9.50 per unit, net of issue costs of $1,594	2,650.0	–	23,581
Units issued for cash consideration on October 8, 2003, at $10.10 per unit, net of issue costs of $2,765	4,950.0	–	47,230
Units issued for cash consideration under Distribution Reinvestment and Optional Cash Purchase Plan	15.2	–	143
Balance at December 31, 2003	23,275.1	–	$ 200,905

(1) Units of Arctic Glacier Income Fund

(2) Common shares of The Arctic Group Inc.

(amounts in thousands, except per unit amounts)

On March 11, 2002, the shareholders of The Arctic Group Inc. approved a Plan of Arrangement (the "Arrangement") reorganizing The Arctic Group Inc. into an income trust. Pursuant to the Arrangement, on March 22, 2002, the Company, a wholly owned subsidiary of the Fund, acquired from The Arctic Group Inc. shareholders all of the common shares of The Arctic Group Inc. in return for subordinated notes. The Fund then acquired these subordinated notes from the holders in exchange for units in the Fund. As a result, the shareholders of The Arctic Group Inc. indirectly received one unit of the Fund in exchange for six common shares of The Arctic Group Inc. Subsequently, the Fund owned all of the subordinated notes of Arctic Glacier Inc., which in turn owned all of the common shares of The Arctic Group Inc. Arctic Glacier Inc. subsequently amalgamated with The Arctic Group Inc., with the amalgamated corporation retaining the name Arctic Glacier Inc.

Immediately prior to the Arrangement, 806.0 stock options of The Arctic Group Inc. were exercised for cash consideration of $600 under The Arctic Group Inc.'s Stock Option Plan and the remaining 1,845.8 stock options outstanding were cancelled.

Concurrent with the Arrangement, the Fund entered into an Underwriting Agreement whereby the Fund filed a prospectus for the issuance of 9,052.6 units at $9.50 per unit for net proceeds of $79,092 after issue costs of approximately $6,908.

In September 2003, the Fund established a Distribution Reinvestment and Optional Cash Purchase Plan ("DRIP") which allows unitholders to reinvest their distributions in exchange for Fund units at a discount of 5% below the 10 day trailing average market price. Participants may also make an optional cash purchase of Fund units of not less than $1,000 per distribution date and not more than $12,000 per calendar year at the 10 day trailing average market price.

(c) Options

Unit Option Plan

The Fund established a Unit Option Plan in March 2002, under which Board of Trustees of the Fund may, from time to time and at its discretion, grant unit options to trustees, directors, officers, employees and consultants of the Fund and its subsidiaries as an additional form of compensation. The number of units reserved for issuance of unit options is limited to a maximum of 10% of the issued and outstanding units of the Fund at any time. The unit options vest over a period of three years.

No unit options have been granted under this plan as at December 31, 2003.

Stock Option Plan

Pursuant to the Arrangement, in March 2002 the Fund terminated the previous Stock Option Plan that was administered by The Arctic Group Inc.

Immediately prior to the Arrangement, 806.0 stock options of The Arctic Group Inc. were exercised for cash consideration of $600 under The Arctic Group Inc.'s Stock Option Plan and the remaining 1,845.8 stock options outstanding were cancelled.

A summary of the Stock Option Plan is as follows:

		2002
	Shares(1)	Weighted Average Exercise Price
Balance, beginning of year	2,651.8	$ 1.72
Exercised	(806.0)	0.74
Cancelled or expired	(1,845.8)	2.14
Balance, end of year	–	$ –
Options exercisable, end of year	–	

(1) Common shares of The Arctic Group Inc.

(d) Unitholder Rights Plan

On April 21, 2003, the Trustees of the Fund implemented a Unitholder Rights Plan that was approved at the annual and special meeting of unitholders on May 27, 2003. The primary objective of the Unitholder Rights Plan is to provide the Trustees of the Fund with sufficient time to explore and develop alternatives for maximizing Unitholder value if any takeover bid is made for the Fund and to provide every Unitholder with an equal opportunity to participate in such a bid. The Unitholder Rights Plan encourages a potential acquirer to proceed either by way of a permitted bid, which requires a takeover bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Trustees.

(amounts in thousands, except per unit amounts)

11. CUMULATIVE DISTRIBUTIONS

Cumulative distributions to December 31, 2003 are as follows:

		2003		2002
Balance, beginning of year	$	**12,761**	$	–
Distributions		**19,744**		12,761
Balance, end of year	$	**32,505**	$	12,761

Distributions are made monthly to unitholders of record on the last business day of each month. Distributions during 2003 were as follows:

			Distributions			
Month	Record Date	Payment Date		Per Unit		Amount
January 2003	January 31, 2003	February 14, 2003	$	0.0892	$	1,397
February 2003	February 28, 2003	March 14, 2003		0.0892		1,397
March 2003	March 31, 2003	April 15, 2003		0.0892		1,397
April 2003	April 30, 2003	May 15, 2003		0.0892		1,397
May 2003	May 30, 2003	June 13, 2003		0.0892		1,397
June 2003	June 30, 2003	July 15, 2003		0.0892		1,633
July 2003	July 31, 2003	August 15, 2003		0.0892		1,633
August 2003	August 29, 2003	September 15, 2003		0.0892		1,633
September 2003	September 30, 2003	October 15, 2003		0.0892		1,633
October 2003	October 31, 2003	November 14, 2003		0.0892		2,075
November 2003	November 28, 2003	December 15, 2003		0.0892		2,076
December 2003	December 31, 2003	January 15, 2004		0.0892		2,076
2003 Total			**$**	**1.0704**	**$**	**19,744**

12. INTEREST

		2003		2002
Interest incurred on:				
Long-term debt including additional charges	$	**1,563**	$	3,850
Capital lease obligations		**46**		103
Convertible debentures		–		195
		1,609		4,148
Less interest on convertible debentures classified as equity		–		195
	$	**1,609**	$	3,953

13. SETTLEMENT OF DEBT

		2003		2002
Excess of carrying value over fair value of 12.5% subordinated debentures on date of settlement	$	–	$	3,294
Write-off of deferred financing costs of multi-currency non-revolving facility and 12.5% subordinated debentures		–		(1,631)
Costs of terminating interest rate swap contract		–		(855)
Fees and other costs		–		(54)
Net gain on settlement of long-term debt	$	–	$	754

(amounts in thousands, except per unit amounts)

14. INCOME TAXES

(a) Components of income tax provision

The provision for income taxes including those items recorded in unitholders' equity is as follows:

		2003		2002
Provision for income taxes:				
Consolidated statement of operations:				
Provision for income taxes	$	**1,023**	$	2,146
Unitholders' equity:				
Income tax benefit related to interest on equity portion of convertible debentures		**–**		(78)
Income tax benefit of settlement of warrants		**–**		(2,586)
Total	$	**1,023**	$	(518)
Components of total income taxes:				
Canada:				
Current income taxes	$	**1,153**	$	888
Future income taxes reduction		**(678)**		(1,605)
		475		(717)
United States:				
Current income taxes		**284**		214
Future income taxes (reduction)		**264**		(15)
		548		199
Total	$	**1,023**	$	(518)

(b) Reconciliation to statutory rate

The overall income tax provision differs from the amount that would be obtained by applying the combined statutory income tax rate to earnings due to the following:

		2003		2002
Net earnings before income taxes	$	**11,787**	$	11,373
Combined Canadian federal and provincial income tax rate		**36.9%**		39.0%
Income tax expense based on statutory income tax rate	$	**4,349**	$	4,433
Increase (decrease) resulting from:				
Net earnings of the Fund subject to tax in the hands of unitholders		**(4,655)**		(3,138)
Recognition of income tax rate reduction on future income taxes		**332**		405
Effect of difference in tax rates on U.S. income		**121**		9
Manufacturing and processing credit		**20**		(83)
Foreign withholding taxes		**470**		313
Capital and state taxes		**359**		330
Effect of non-deductible expenses		**27**		(123)
Income tax expense	$	**1,023**	$	2,146
Effective income tax rate		**8.7%**		18.9%

(amounts in thousands, except per unit amounts)

(c) Future income tax liability

Significant components of the net future income tax liabilities are as follows:

		2003		2002
Non-capital loss carry-forwards	$	**11,827**	$	10,367
Restructuring charges		**342**		61
Other temporary differences		**319**		491
Excess of carrying value of property, plant and equipment and other assets over tax values		**(17,776)**		(14,942)
		(5,288)		(4,023)
Valuation allowance		**(413)**		(491)
Future income tax liabilities	$	**(5,701)**	$	(4,514)

15. EARNINGS PER UNIT

The computation for basic and diluted earnings per unit is as follows:

		2003		2002
Earnings	$	**10,764**	$	9,227
Adjustments for interest on equity component of convertible debentures charged directly to equity, net of applicable future income taxes		**–**		(117)
Earnings available to unitholders		**10,764**		9,110
Dilutive effect of convertible debentures		**–**		117
Diluted earnings available to unitholders	$	**10,764**	$	9,227
Basic weighted average number of units		**18,173.0**		13,532.3
Dilutive effect of:				
Convertible debentures		**–**		221.7
Options and warrants		**–**		134.2
Diluted weighted average number of units		**18,173.0**		13,888.2
Earnings per unit:				
Basic	$	**0.59**	$	0.67
Diluted	$	**0.59**	$	0.66

16. CHANGES IN WORKING CAPITAL ITEMS

		2003		2002
Accounts receivable	$	**3,096**	$	1,530
Inventories		**(990)**		534
Prepaid expenses		**(849)**		1,298
Accounts payable and accrued liabilities		**921**		(3,133)
	$	**2,178**	$	229

(amounts in thousands, except per unit amounts)

17. SEGMENTED INFORMATION

The Fund has determined that it operates in one business segment, the manufacturing and distribution of packaged ice and other products. The Fund and its subsidiaries operate in Canada and the United States.

The following presents key information by geographic segment:

	2003			2002		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Total sales	**$ 36,735**	**$ 60,435**	**$ 97,170**	$ 37,810	$ 53,909	$ 91,719
Cost of sales, selling, general and administration expenses	**29,586**	**43,122**	**72,708**	28,240	38,475	66,715
	$ 7,149	**$ 17,313**	**$ 24,462**	$ 9,570	$ 15,434	$ 25,004
Earnings (loss) for the year	**$ 10,637**	**$ 127**	**$ 10,764**	$ 9,649	$ (422)	$ 9,227
Total assets	**$ 63,144**	**$ 151,513**	**$ 214,657**	$ 68,829	$ 114,109	$ 182,938

18. COMMITMENTS

The Fund's subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by year of rental payments required under operating leases outstanding at December 31, 2003:

2004	**$ 3,453**
2005	**2,435**
2006	**2,078**
2007	**1,214**
2008	**891**
2009 and thereafter	**3,362**
Total	**$ 13,433**

19. CONTINGENCIES

Certain litigation arising in the normal course of business is pending against the Fund and its subsidiaries. While the final outcome with respect to actions outstanding or pending as at December 31, 2003 cannot be predicted with certainty, the Fund is of the opinion that the resolution of such litigation will not have a significant effect on the consolidated financial statements of the Fund and its subsidiaries.

20. FINANCIAL INSTRUMENTS

Credit risk

The Fund, in its normal course of business, evaluates the financial condition of its customers on a continuous basis and examines credit history for new customers. The Fund establishes a provision for bad debts based on specific customers' credit risk, historical trend and other information on the economic situation. The Fund believes that its customers are not exposed to a credit risk level higher than normal.

Fair value of financial instruments

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and distributions payable to unitholders approximates their fair value, since these items fall due in the short-term. The carrying value of obligations under capital leases and long-term debt approximates their fair value since they bear interest at rates comparable to the prevailing market rates.

21. SUBSEQUENT EVENT

In March 2004, a subsidiary of the Fund acquired certain assets and operations of the ice division of A.T. Reynolds & Sons, Inc. (operating as Leisure Time Ice), which operated an ice manufacturing and distribution business in central and southern New York, northern and central New Jersey and northeastern Pennsylvania, for aggregate consideration of approximately $8,830 (U.S. $6,562).

22. COMPARATIVE FIGURES

Certain items in the comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2003 consolidated financial statements.

Historical Financial Information

Year ended December 31, except as noted

(in thousands of dollars, except per unit data)

	2003	2002	2001	2000	1999	1998[1]	1998[2]	1997[2]
OPERATING RESULTS								
Sales	**97,170**	91,719	91,388	82,114	74,257	41,508	9,574	5,345
EBITDA	**24,462**	25,004	25,053	21,608	19,015	9,922	423	1,031
Net earnings (loss)	**10,764**	9,227	(4,818)	(2,885)	(949)	1,857	(1,016)	218
Basic earnings (loss) per unit	**0.59**	0.67	(0.84)	(0.52)	(0.20)	0.45	(0.44)	0.13
Diluted earnings (loss) per unit	**0.59**	0.66	(0.84)	(0.52)	(0.20)	0.29	(0.44)	0.13
CASH FLOW								
Funds from (used in) operations	**20,962**	17,249	11,904	9,575	8,544	6,640	(366)	860
Distributions to unitholders	**19,744**	12,761	–	–	–	–	–	–
Distributions to unitholders per unit	**1.07**	0.82	–	–	–	–	–	–
FINANCIAL POSITION								
Net cash [3]	**11,032**	11,919	1,946	(208)	4,882	4,438	4,118	952
Current assets	**23,177**	22,223	15,612	15,286	15,019	10,830	7,042	1,488
Working capital	**12,105**	15,122	5,518	(1,340)	5,529	(814)	4,164	556
Total assets	**214,657**	182,938	187,097	188,312	170,674	129,443	36,157	4,947
Long-term debt [4]	**32,045**	54,322	123,284	120,766	104,547	63,007	15,005	1,908
Net debt [5]	**21,013**	42,403	121,338	120,974	99,665	58,569	10,887	957
Unitholders' equity	**166,469**	117,618	49,500	52,719	53,825	51,739	18,731	2,236
Units outstanding (000's)								
End of year	**23,275**	15,660	6,043	6,043	6,036	5,763	3,167	2,111
Weighted average (basic)	**18,173**	13,532	6,043	6,038	5,991	3,718	2,496	1,683

Quarterly Financial Information

(In thousands of dollars, except per unit data)

	Q1	Q2	Q3	Q4	2003	Q1	Q2	Q3	Q4	2002
OPERATING RESULTS										
Sales	7,596	25,615	48,219	15,740	**97,170**	8,534	27,171	44,598	11,416	91,719
EBITDA	(3,621)	8,317	20,413	(647)	**24,462**	(3,194)	9,096	19,573	(471)	25,004
Net earnings (loss)	(3,358)	4,059	11,351	(1,288)	**10,764**	(3,778)	4,147	11,041	(2,183)	9,227
Basic earnings (loss) per unit	(0.21)	0.26	0.62	(0.06)	**0.59**	(0.54)	0.26	0.70	(0.14)	0.67
Diluted earnings (loss) per unit	(0.21)	0.26	0.62	(0.06)	**0.59**	(0.54)	0.26	0.70	(0.14)	0.66
CASH FLOW										
Funds from (used in) operations	(4,232)	7,817	18,734	(1,357)	**20,962**	(7,305)	7,903	15,865	786	17,249
Distributions to unitholders	4,191	4,427	4,899	6,227	**19,744**	–	4,540 (7)	4,110	4,111	12,761
Distributions to unitholders per unit	0.27	0.27	0.27	0.27	**1.07**	–	0.29 (7)	0.26	0.26	0.82
FINANCIAL POSITION										
Net cash (3)	2,622	3,352	13,055	11,032	**11,032**	5,213	(626)	12,730	11,919	11,919
Current assets	12,260	22,946	34,044	23,177	**23,177**	16,371	19,716	32,494	22,223	22,223
Working capital	5,144	11,577	22,652	12,105	**12,105**	5,737	8,780	19,220	15,122	15,122
Total assets	165,522	172,482	214,123	214,657	**214,657**	185,470	179,694	195,727	182,938	182,938
Long-term debt (4)	51,573	34,070	62,557	32,045	**32,045**	54,577	52,298	53,078	54,322	54,322
Net debt (5)	48,951	30,718	49,502	21,013	**21,013**	49,364	52,924	40,348	42,403	42,403
Unitholders' equity	106,157	124,920	131,590	166,469	**166,469**	120,606	115,143	125,489	117,618	117,618
UNIT DATA (6)										
Trading price range										
High	$ 9.59	$ 9.98	$ 10.65	$ 10.68	**$10.68**	$ 9.84	$ 9.54	$ 9.15	$ 9.07	$ 9.84
Low	$ 8.50	$ 9.33	$ 9.50	$ 9.55	**$ 8.50**	$ 5.28	$ 8.20	$ 8.00	$ 8.51	$ 5.28
Close	$ 9.50	$ 9.59	$ 9.95	$ 10.50	**$10.50**	$ 9.52	$ 9.02	$ 8.80	$ 8.70	$ 8.70
Trading volume (000's)	960	1,875	1,606	2,894	**7,335**	3,277	2,785	1,337	1,270	8,669
Cumulative trading volume (000's)	960	2,835	4,441	7,335	**7,335**	3,277	6,062	7,399	8,669	8,669
Units outstanding (000's)										
End of period	15,660	18,310	18,310	23,275	**23,275**	15,651	15,657	15,660	15,660	15,660
Weighted average (basic)	15,660	15,805	18,310	22,837	**18,173**	7,040	15,654	15,658	15,660	13,532

(1) Eight months.

(2) Year ended April 30.

(3) Cash and cash equivalents, net of bank indebtedness.

(4) Includes obligations under capital leases.

(5) Long-term debt and bank indebtedness, net of cash and cash equivalents.

(6) Historical figures adjusted to reflect exchange of six common shares for one fund unit on March 22, 2002.

Corporate Governance

The Board and Management of the Fund recognize that effective corporate governance is required to maintain and enhance unitholder value and to support the effective and careful direction and operation of the Fund and its Subsidiaries. The Fund's corporate governance practices in relation to the guidelines (the "Guidelines") adopted by the TSX in 1995 are reviewed in the following comparative discussion and analysis.

The corporate governance practices and policies of the Fund have been developed under the general stewardship of the Corporate Governance Committee of the Board, which is composed entirely of independent, or "outside" Trustees. As a result of proposed amendments to the Guidelines and other changes in applicable laws, the Corporate Governance Committee is currently undertaking a comprehensive review of the practices and policies of the Fund to ensure that the Fund complies with all applicable requirements. In this regard, it has developed and implemented, and continues to develop, implement and refine, formal policies and procedures that reflect the Fund's commitment to exemplary corporate governance.

For the benefit of unitholders and in response to concerns throughout North America in 2002 regarding corporate governance practices in public investment vehicles, in January 2003 the Board published on the Fund's web-site at www.arcticglacierinc.com a special report outlining corporate governance issues reviewed by the Board in 2002.

Also, in response to the recent passage of the Sarbanes-Oxley Act of 2002 in the United States, the Fund has reviewed and is currently formalizing its processes with respect to disclosure controls and procedures, internal controls, related party transactions, loans to officers and directors and other matters covered by such legislation. As new rules are implemented with respect to corporate governance, disclosure and responsibility, the Fund intends to continue to adopt "best practices" in such areas, as they may develop.

In keeping with currently recommended and progressive corporate governance practices, in 2002 the Board appointed James E. Clark as Vice-Chair and Lead Outside Trustee. In May 2003, the Board appointed Mr. Clark as Non-Executive Chairman of the Board, replacing Robert Nagy as Chairman. Mr. Clark, a Chartered Accountant by training, was a founding shareholder of Arctic. He has a long standing knowledge of the packaged ice industry and has had considerable board experience. His appointment as Non-Executive Chairman further supports and strengthens the important alignment of managements' and unitholders' interests.

TSX CORPORATE GOVERNANCE GUIDELINES

Guideline	Compliance	Comments:
TSX GUIDELINE – 1 The Board should explicitly assume responsibility for the stewardship of the Fund.	YES	• The Board is responsible for supervising and overseeing management of the Fund and its subsidiaries. Management, in turn, is responsible for the day-to-day management of the business and affairs of the Fund and its subsidiaries.
TSX GUIDELINE – 1(a) The Board should adopt a strategic planning process.	YES	• The strategic planning process of the Fund has been developed by the Board with input from Management. This is an ongoing process carried out at Board/Management strategic planning sessions. • The Board reviews and approves strategic transactions that are not considered to be in the ordinary course of business as well as other items of significance, including significant acquisitions, dispositions and financings. • Every other year, the Board holds a Trustees' and senior management retreat at which the existing and proposed strategic plans of the Fund are addressed.

Guideline	Compliance	Comments:
TSX GUIDELINE – 1(b) The Board should identify the principal risks of the Fund's Business and ensure the implementation of appropriate systems to manage these risks.	YES	• In conjunction with Management of the Fund, the Board assesses and manages the Fund's exposure to risk. • The Audit Committee, together with the Board, identifies and reviews with Management the principal risks facing the Fund and ensures that management has in place the policies and systems to assess and manage these risks. • Specific risks and risk management are addressed by committees of the Board. For example, the Audit Committee is charged with reviewing financial risks (foreign exchange risk, interest rate risks, etc.) and other insurable risks facing the Fund. The Corporate Governance Committee is responsible for addressing risks in the areas of succession planning and conduct review, among others.
TSX GUIDELINE – 1(c) The Board should assume responsibility for succession planning, including appointing, training and monitoring senior management.	YES	• The Corporate Governance Committee reviews with the Chief Executive Officer existing management resources and plans, including recruitment and training programs, to ensure that qualified personnel will be available for succession to executive positions. These matters are reviewed with the Board on a regular basis.
TSX GUIDELINE – 1(d) The Board should establish a communications policy for the Fund.	YES	• The Fund has a disclosure policy to fairly disseminate material information in a timely manner to all unitholders in accordance with applicable securities laws. • The Board, upon recommendation of the Audit Committee, approves annual and quarterly reports to unitholders as well as other material public communications. • All quarterly and annual financial statements, material press releases and investor presentations are posted immediately on the Fund's website (www.arcticglacierinc.com). • With respect to the release of its quarterly financial results, the Fund provides live internet and telephone conference call access to all interested parties, including unitholders and financial analysts.
TSX GUIDELINE – 1(e) The Board should assume responsibility for integrity of the Fund's internal control and management information systems.	YES	• The responsibility for reviewing internal control and management information systems is delegated to the Audit Committee with the assistance of external auditors. Internal control and information systems are reviewed at least annually by the Audit Committee with Management.
TSX GUIDELINE – 2 The Board shall be constituted with a majority of individuals who qualify as unrelated directors (trustees).	YES	• The Board is constituted of a majority of individuals who are unrelated.
TSX GUIDELINE – 3 The Board is required to disclose its analysis of the application of the principles supporting the conclusion in item 2.	YES	• An "unrelated director" is a director who is independent from management and is free from any interests or any business or other relationships which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Fund, other than interests and relationships arising from unitholdings. A related director is one who is not an unrelated director. • Based upon the definition of "unrelated director" in the TSX Guidelines and a review of the applicable factual circumstances (including financial, contractual and other relationships), 4 of the 5 trustees are unrelated.

Corporate Governance

Guideline	Compliance	Comments:
TSX GUIDELINE – 4 The Board should appoint a committee of directors (trustees) composed exclusively of outside directors (trustees), a majority of whom are unrelated directors (trustees), with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors (trustees) on an ongoing basis.	**YES**	• The Corporate Governance Committee is composed of three outside, unrelated trustees. • In conjunction with the Executive Chair, the Corporate Governance Committee reviews potential candidates for the Board and makes recommendations to the full Board.
TSX GUIDELINE – 5 The Board should implement a process for assessing the effectiveness of the Board as a whole, the Committees of the Board and the contribution of individual directors/trustees.	**YES**	• The Corporate Governance Committee reviews the effectiveness of the Board, its committees and individual trustees.
TSX GUIDELINE – 6 Existence of an orientation and education program for new directors/trustees.	**YES**	• The Board and Management have established an informal orientation and education program for new trustees and new Committee Members. In addition, all Committees of the Board report to the Board on an ongoing basis with respect to developments within their respective areas. Ongoing education is provided if deemed necessary. • The Fund undertakes ongoing continuing education efforts which includes tours of various corporate sites and facilities, meetings with Management of the Fund, and a trustees' retreat held every other year.
TSX GUIDELINE – 7 The Board should examine the size of the Board and the impact of the number upon effectiveness.	**YES**	• The Board considers the composition and size of the Board (up to a maximum of 9 trustees) to be appropriate given the Fund's current businesses. • The trustees of the Fund reflect diverse expertise and geographical perspectives, and come from political, financial and industry backgrounds.
TSX GUIDELINE – 8 Adequacy and form of the compensation of directors/trustees should realistically reflect the responsibilities and risks involved in being an effective director/trustee.	**YES**	• Trustees are remunerated for their services through an annual retainer as well as fees per meeting. See "Executive Compensation and Related Matters – Compensation of Directors" in the Fund's Information Circular. • The Compensation Committee is charged with the responsibility of reviewing the adequacy and form of the compensation of directors/trustees. In conjunction with external consultants, the Compensation Committee has undertaken a review of fees paid by the Fund to Trustees to ensure that it is competitive with the market and that it reflects the value that the Trustees bring to the Fund.
TSX GUIDELINE – 9 Committees of the Board should generally be composed of: (a) outside directors/trustees; and (b) a majority of whom are unrelated directors/trustees.	**YES**	• Each Board Committee is comprised solely of outside directors/trustees. • Each Board Committee is comprised of only unrelated directors/trustees.
TSX GUIDELINE – 10 The Board should assume responsibility for (or a Committee of the Board should be assigned general responsibility for) developing the Company's/Fund's approach to governance issues.	**YES**	• The Corporate Governance Committee is responsible for the Fund's approach to corporate governance issues.

Guideline	Compliance	Comments:
TSX GUIDELINE – 11 The Board, together with the Chief Executive Officer ("CEO"), should develop position descriptions for the Board and the CEO, involving the definition of the limits to Management's responsibilities. In addition, the Board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives.	YES	• The Board develops with Management the corporate objectives which the Chief Executive Officer and Management are responsible for meeting and reviews such objectives on an ongoing basis. In addition, the Trustees participate with Management in regular strategic planning meetings which review and consider performance targets and objectives.
TSX GUIDELINE – 12 The Board should have structures and procedures for ensuring that the Board can function independently of Management.	YES	• The Board meets independently of Management on an ongoing basis. • During each meeting, the Board and its committees conduct "in camera" sessions, at which no management directors/trustees or members of management are present.
TSX GUIDELINE – 13(a) The Audit Committee of the Board should be composed only of outside directors.	YES	• The Audit Committee is comprised of only outside Trustees.
TSX GUIDELINE – 13(b) The roles and responsibilities of the Audit Committee should be specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties.	YES	• The Audit Committee has adopted roles and responsibilities including the review of annual and quarterly financial statements, accounting practices and policies, ongoing reviews with the Fund's auditors, including the scope of the audit and the role, independence and fees of the external auditors.
TSX GUIDELINE – 13(c) The Audit Committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate.	YES	• The Audit Committee and the Board review on an ongoing basis the principal risks of the Fund's business and Management's recommendations for managing such risks. Systems put in place to manage risks are monitored by the Board or the Audit Committee. • Generally, the Audit Committee is responsible for the Fund's financial reporting processes and the quality of its financial reporting. In fulfilling this responsibility, the Audit Committee oversees the terms of engagement and relationship between the Fund and its external auditors. In doing so, the Audit Committee is free to communicate directly with the external auditors of the Fund without the presence of Management.
TSX GUIDELINE – 13(d) The Audit Committee duties should include oversight Responsibility for Management reporting on internal control and should ensure that Management has designed and implemented an effective system of internal control.	YES	• The Audit Committee oversees the integrity of the Fund's internal controls and risk management, and reporting procedures with respect thereto. In this regard, the Audit Committee specifically reviews and addresses fraud prevention and other internal control procedures as well as the management and mitigation of contingent liabilities, including litigation and regulatory compliance matters. • It is the Fund's intention to ensure that at all times at least one member of the Audit Committee qualifies as a "financial expert" as contemplated by the relevant regulatory authorities.
TSX GUIDELINE – 14 The Board should implement a system which enables an individual Director/Trustee to engage an outside advisor at the expense of the Company/Fund in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the Board.	YES	• The Board and its committees may retain outside advisors as they deem necessary. Individual Trustees may also retain outside advisors, at the expense of the Fund, upon approval of the Corporate Governance Committee.

Corporate Information

OFFICERS

Robert J. Nagy
President & Chief Executive Officer

Keith W. McMahon, CA
Executive Vice President & Chief Financial Officer

Hugh A. Adams
Corporate Secretary

SENIOR MANAGEMENT

Robert J. Nagy
President & Chief Executive Officer

Keith W. McMahon, CA
Executive Vice President & Chief Financial Officer

Frank G. Larson
Senior Vice President, Operations

Serge Beaudet, CA
Vice President, Canadian Operating Division

Keith F. Burrows
Vice President, Acquisitions and Integration

Keith E. Corbin
Vice President, Sales & Marketing

Richard A. Thibault
Vice President, Production

Neil R. Winther
Vice President, Human Resources & Administration

Douglas A. Bailey, CA
Corporate Controller

Gary D. Cooley
Director, Corporate Development

Marc G. Fontaine
Director, Information Systems

Garth D. Waddell, CA
Director of Finance

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Winnipeg, Manitoba

BANKERS

Toronto Dominion Bank

RoyNat Inc.

TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Arctic Glacier Income Fund AG.UN

ANNUAL GENERAL MEETING

Thursday, May 27, 2004
4:15 p.m. E.S.T.

Auditorium, TSX Conference Centre
The Exchange Tower
130 King Street West
Toronto, Ontario

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Income Fund Trustees

James E. Clark [1,2,3]
Chairman of the Board

Mr. Clark was named Chairman of the Board in May 2003, and was Vice Chair and Lead Outside Trustee of the Fund from its inception in 2002 until May 2003. Mr. Clark is President and a director of Jecco Properties Ltd., a Vancouver based real estate investment and development company and is also President and director of Moray Channel Enterprises Ltd., a marina development and management company. Mr. Clark was a founder of The Arctic Group Inc. in 1996, a director from 1996 to 2002 and Vice-President, Finance and Acquisitions from 1996 to 1998. He has been a director or principal of a number of predecessor companies since 1989 and a participant in the packaged ice industry for more than twenty years.

Hon. Gary A. Filmon, P.C., O.M. [1,3]
Vice Chairman

Mr. Filmon was named Vice Chairman of the Fund in May 2003. Mr. Filmon is Vice-Chairman of Wellington West Capital Inc. of Winnipeg. He is a director of Manitoba Telecom Services Inc. and FWS Construction, serves on the National Advisory Board of Marsh Canada Limited, and is a member of Canada's Security and Intelligence Review Committee. Mr. Filmon was Premier of the Province of Manitoba from 1988 to 1999. He has been a Trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 2000 to 2002.

Robert J. Nagy
President and Chief Executive Officer

Mr. Nagy has been Chief Executive Officer since 1996, and added the title of President in August 2002. He has been a Trustee of the Fund since its inception in 2002, and was Chairman of the Board until May 2003, and Chairman of the Board of The Arctic Group Inc. from 1996 to 2002.

Mr. Nagy was a founder of The Arctic Group Inc. in 1996 and a principal of a number of predecessor companies since 1986. He brings extensive strategic and operational experience to his role as architect and leader of Arctic's aggressive acquisition and product branding strategies. Mr. Nagy has had extensive experience in every aspect of the ice manufacturing business over the past thirty years and is highly respected within the industry and the business community.

Peter S. Hyndman [1,2,3]

Mr. Hyndman is Counsel at Fasken Martineau DuMoulin LLP, Barristers and Solicitors in Vancouver. He has served as a Director, and as Corporate Secretary, for a number of major Canadian public and private companies, several with extensive cross-border activities and has a particular interest in emerging corporate governance issues. Mr. Hyndman was an elected member of the British Columbia Legislature from 1979 to 1983 and served as Minister of Consumer and Corporate Affairs during two years of that term. Mr. Hyndman has been a Trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 1996 to 2002.

David R. Swaine [2]

Mr. Swaine is President of RoyNat Business Capital Inc. Mr. Swaine was previously Executive Vice President and Chief Operating Officer and a director of RoyNat Inc. of Toronto. He has been a Trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 1999 to 2002.

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee

LEFT TO RIGHT

David R. Swaine
James E. Clark
Robert J. Nagy
Peter S. Hyndman
Gary A. Filmon

Driving New Opportunities to You!

ARCTIC GLACIER INCOME FUND

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